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COMMITTEE ON PETITIONS

(SEVENTH LOK SABHA)

TWENTY-FIRST REPORT

[Representation regarding working and development of Kandla Free Trade Zone]

Presented to the Speaker on the 23rd November, 1984

(Laid on the Table on the 18th January, 1985)

LOK SABHA SECRETARIAT
NEW DELHI

September, 1984/Bhadra, 1906 (Saka)

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COMPOSITION OF THE COMMITTEE ON PETITIONS
(1984-85)

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Shri S- D. Kaura—*Chief Legislative Committee Officer*

Shri S.S. Chawla—*Senior Lgislativ Cmmitte Officer*

I

INTRODUCTION

1.1. I, the Chairman of the Committee on Petitions, having been authorised by the Committee to present the Report on their behalf, present this Twenty-first Report of the Committee to the House on the representation regarding working and deveploment of Kandla Free Trade Zone.

1.2. The Committee considered the representation at their sitting held on the 19th June, 1984. The Committee undertook an on-the-spot study visit to Kandla Free Trade Zone on the 12th and 13th July, 1984, in order to see at first hand the provision of infrastructural facilities, incentives for export production, items of export and their quantities exported and efforts made by the Government to improve the situation.

1.3 During their Study Visit, the Committee held informal discussions at Gandhidham with the petitioners—Shri N.P. Mehta and others and representatives of the Gandhidham Chamber of Commerce and Industry and of KAFTZ Industries Association, Gandhidham. The Committee also visited Kandla Port. The Committee also held informal discussion with the representatives of Ministries of Commerce, Finance, Railways, Shipping and Transport, Communications (Posts and Telegraphs Deptt), KAFTZ and Labour, Electricity and Industry Departments of the State Government of Gujarat and the Chairman, Kandla Port Trust.

1.4 The Committee considered their draft Report at their sitting held on the 10th September, 1984 and adopted it.

1.5 The Committee wish to express their thanks to Chairman, Kandla Port Trust, representatives of the Ministry of Commerce, Ministry of Finance (Department of Revenue), Ministry of Railways (Railway Board), Ministry of Shipping and Transport (Transport Wing), Ministry of Communications (Posts and Telegraphs Department), Officials of the Kandla Free Trade Zone, the Officials Department of Labour, Electricity and Industry, Government of Gujarat, for furnishing the relevant information to the Committee in connection with the examination of the subject.

The Committee also express their thanks to the petitioners, Shri N.P. Mehta and others, representatives of the Gandhidham Chamber of Commerce and Industry and of Kandla Free Trade Zone Industries Association, Gandhidham for the relevant information and suggestions made during their discussion with the Committee when they visited Kandla Free Trade Zone.

1.6. The observations/recommendations of the Committee on the matter have been included in this Report.

NEW DELHI ;
10th September, 1984
Bhadra 19, 1906 (Saka)

K.P. TEWARI
Chairman,
Committee on Petitions.

II

REPORT

2.1 Shri N.P. Mehta, ex-President, Gandhidham Municipality, Adipur, Kutch and others submitted a representation in April, 1983, duly countersigned by Dr. Mahipatray M. Mehta, MP regarding working and development of the Kandla Free Trade Zone.

A. Petitioners' Grievances and Demands

2.2 In their representation (*See* Appendix I), the petitioners stated, *inter alia*, as follows :—

> "Kandla Free Trade Zone (KAFTZ) was declared open by late Shri Lal Bahadur Shastri, the then Prime Minister of India, on the 7th March, 1965, with triple objectives *viz* (1) to earn foreign exchange for the country, (2) to provide export traffic to Kandla Port, which had till then only one way traffic only *i.e.* Import Cargo and (3) to develop employment opportunities in backward District of Kutch.
>
> xxx xxx xxx
>
> But due to lack of enough interest amongst top leadership of country, and due to lop-sided handling of Kandla Free Trade Zone affairs by the Central Government and also very loose and lifeless administration of the Zone and that too purely by periodical notifications issued as per whims and wills of individuals, in absence of the statute passed by the Parliament, the KAFTZ had miserably failed to fulfil any of the objectives, fixed for it by the Nation, even till day.
>
> xxx xxx xxx
>
> Hence, we the residents of Kutch District of Gujarat State, beg to submit few remedies, if implemented promptly and thoroughly, will help to a great extent, KAFTZ to develop on sound and healthy lines.
>
> xxx xxx xxx

(1). The Government of India should frame and implement a separate Act to govern Free Trade Zones in the country, as per practice all over the world. KAFTZ is perhaps the only all purpose zone in the world, which has no pivotal support of a full-fledged Statute.

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(2) All the recommendations of Kaul Committee and also of the recent Task Force in respect of KAFTZ should be implemented forthwith for the further sound and healthy development of the Kandla Free Trade Zone.

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(3) There should be real one-window service available to the entrepreneurs from the Zone Administration for getting power, water, telephone/telex connections and if possible financial assistance from the State Financial Agencies.

(4) Suitable quotas from All India Pool for various items of export, should be earmarked for Zone units also, on year to year basis.

(5) Labour laws of the State and the country should be strictly enforced in every zone unit enforcing machinery should be created on the site itself in KAFTZ.

(6) To improve the administration of KAFTZ, we beg to demand that the post and working of Administration and Customs should be separated properly and earmarked clearly, to enforce laws of the land and also to provide honest administration in both wings of KAFTZ."

B. Comments of the Ministry of Commerce (Department of Commerce)

2.3 The representation was referred to the Ministry of Commerce (Department of Commerce) for furnishing their factual comments thereon for consideration by the Committee on Petitions. In their factual note, dated the 13th September, 1983, (*See* Appendix II) the Ministry have stated, *inter alia*, as follows ;—

"*Introductory remarks* : The observation made in the representation about the Government lacking interest in the development of KAFTZ and loose and lifeless Administration of the Zone are not based on facts. While evaluating the performance of KAFTZ, the initial teething problems which an enterprise of this nature involves have to be borne in view. While it is true that the Zone had made a slow start, the momentum gained around 1979 onwards is noteworthy. The position as it stands today is that besides having total exports of Rs. 320 crores since inception, and Rs. 142 crores in the year 1982-83 the Zone provides employment to more than 7,000 workers. There has been a massive investment by the Government in setting up common facilities and infrastructure. A regular container service has already been started between Kandla and Russian Ports. Efforts are also being made to attract regular vessels going to other Western countries. Of course there need to improve services like telecommunication, railway etc. These and many other similar problems are engaging the serious attention of the Central Government and the State Government and action is being taken to improve the situatien.

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(1) *Separate Act for Free Trade Zone* : Government is already considering bringing forward a comprehensive legislation for administration and control of free trade zones in the country. Framing of this legislation is in an advanced stage. The Tandon Committee has also recommended for the constitution of an Authority which will encompass all the aspects relating to the functioning of free trade Zones in the country.

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(2) Most of the recommendations of the Kaul Committee have been accepted and implemented by the Government.

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(3) *One-window service* : The KAFTZ Board functions as a one-window clearance for evaluation and sanctioning of projects. Centralisation of other clearances needs study and concurrence of concerned authorities.

(4) *Export quota for KAFTZ Units* : Government will examine the suggestion. At the moment it is not possible for this Ministry to fix quotas for KAFTZ units on a year to year basis.

(5) *Labour Laws* : All efforts are made to ensure implementation of labour laws in KAFTZ. The State Government will be advised to adequately strengthen labour laws enforcement machinery as this will be in the larger interests of the Zone for ensuring industrial peace.

(6) *Improvements in KAFTZ Administration* : As already mentioned, the Ministerial wing is administratively separate from the Customs wing, Rules of deputation are strictly being followed. Reversion of the Ministerial staff already promoted as Preventive Officers (in accordance with the provisions of the notified rules) is legally not possible nor administratively desirable. Officers against whom specific charges of misconduct are proved are being proceeded against departmentally. There is no need for setting up a high powered Committee to investigate of the working of KAFTZ. The CBI has already conducted an investigation into complaint of the Administrative Officer having a massed wealth though corrupt practices. The CBI's report has been received and suitable action is being initiated."

2.4 The Committee on Petitions at their sitting held on the 19th June, 1984 considered the representation and the factual comments thereon furnished by the Ministry of Commerce (Department of Commerce) and decided to undertake an on-the-spot study visit to Kandla Free Trade Zone on the 12th and 13th July, 1984, in order to see at first hand the provision of infrastructural facilities, telecommunication facilities, transport facilities both for men and materials, incentives for export production, items of export and their quantities exported and efforts made by the Government to improve the situation.

Accordingly, the Committee visited Kandla Free Trade Zone and held informal discussion with the petitioners, representatives of the Gandhidahm Chamber of Commerce and Industry, KAFTZ Industries Association and of the Ministries of Commerce, Finance, Railways, Shipping and Transport and

Communications. The Committee also held informal discussions with the Chairman, Kandla Port Trust and the officials of Kandla Free Trade Zone and of the Labour, Electricity and Industry Departments of the State Government of Gujarat (*See* Appendix III).

C. Study Visit of the Committee on Petitions and submissions made before the Committee

(*I*) *Objectives of Kandla Free Trade Zone*

2.4.1 It has been stated in the representation that Kandla Free Trade Zone (KAFTZ) was established in March, 1965, with triple objectives *viz.*— (1) to earn foreign exchange for the country, (2) to provide export traffic to Kandla Port, which had till then only one way traffic only import cargo and (3) to develop employment opportunities in backward District of Kutch. But KAFTZ has miserably failed to fulfil any of the objectives fixed for it.

2.4.2 In a Memorandum submitted to the Committee, the President, Kandla Free Trade Zone Industries Association, Gandhidham has stated :

> "Although the activities at the Kandla Free Trade Zone started at snail's pace in the beginning, it started showing considerable improvement in the last two years resulting in the exports crossing the Rs. 100 crore mark in 1980-81. It is expected that during the current year, the export figure is likely to touchthe Rs. 200 crores mark. Even though, looking into the developments in terms of the volume of exports that the zonehas developed considerably, we feel that considering the vast potential of a Free Trade Zone, what we have achieved is far from what can achieve. The Free Trade Zone in any other country boasts of huge foreign investment, whereas no foreign investor in the real sense, has come forward to set up a unit in Kandla Free Trade Zone. Even Indian investment got a spurt only when the Government announced a Tax Holiday for 5 years."

2.4.3 In their background note, the Ministry of Commerce (Department of Commerce) have stated as follows :—

> "To promote exports, the Government of India established Kandla Free Trade Zone (KAFTZ) in Kutch district of Gujarat in 1965. KAFTZ is a multi-product zone for 100% export oriented units. The objectives of starting KAFTZ were as follows :—

(i) Industrialisation of the under developed and backward area of Kutch.

(ii) promoting exports from the country and boosting foreign exchange earnings.

(iii) A fillip being provided to Kandla Port as a substitute for Karachi which went to Pakistan after partition.

(2) At present there are 98 working industrial units in KAFTZ. After 1976 the performance of KAFTZ has shown considerable improvement and a number of units with foreign collaboration from countries like Holland, Canada, USA etc. have been set up. The performance of KAFTZ *vis-a-vis* units working, employment generated and exports are as given below :

Year	*Working Units*	*Employment*	*Exports (Rs. crores)*
1980-81	52	4000	25.51
1981-82	67	6000	70·04
1982-83	83	7000	142.44
1983-84	98	7500	107.46"

(II). *Infrastructural Facilitties*

Views of the petitioners, Gandhidham Chamber of Commerce and Industry and KAFTZ Industries Association, Gandhidham.

2.5.1 The representatives of the petitioners and other associations have made the following submissions before the Committee :—

(a) *Implementation of recommendations of the Kaul Committee*

All the recommendations of Kaul Committee (1978) and also of the recent Task Force (Tandon Committee-1981) in respect of KAFTZ should be implemented forthwith for the further sound and healthy development of the Kandla Free Trade Zone. Few of these recommendations had been implemented uptil now but such piecemeal implementation will not go far and will not help for all out and permanent develo-

(b) *Telecommunication services*

Telephone : As the telephone is the nerve of all the business activities, Gandhidham Exchange be immediatly switched over to automatic exchange with STD facilities to major cities like Bombay, Delhi, Calcutta and Madras.

Telex : Most of the Telex machines installed in the Free Trade Zone are not working for the last six months and many of the users have just unhooked their machines in despair. Communication, which is life line for exporters, is absolutely in shambles. This may be immediately attended to.

(c) *Change of Kandla—Bombay flight timings and air link to Ahmedabad/Delhi.*

Air service linking Kandla with Bombay has been provided but the timings are most unsuitable. Kandla-Bombay flight timings should be in the morning hours. As on date, Ahmedabad and Delhi are not air linked to Kandla. This point needs active consideration.

(d) *Train Service*

(i) The distance between Bombay Central and Gandhidham by rail is only about 800 kms. At present two pair of Trains 15DN and 16UP (Saurastra Express) and 17DN and 18UP (Saurastra-Janata Express) are running between Bombay Central and Gandhidham. Saurastra Express takes 21 hours to cover the distance. The running time of one of these two trains can easily be reduced to 14 hours by avoiding unnecessary stopages and also by reducing the halt timing at major stations, like Ahmedabad. AC coaches may also be attached.

(ii) Even though the Zone has been linked by metre gauge to Gandhidham, there is no shuttle services operating from the Zone to Gandhidham/Anjar/Bachhau from where most of work force hails. In the absence of the train service, Zone units have to run a fleet of about 50 buses. Shuttle train services with suitable timings may be started between Kandla Port KAFTZ-Gandhidham-Anjar-Bhuj and Kandla Port—KAFTZ-Gandhidham Bhachau and Samakhiali, both on metre-gauge.

(e) *Water*

Every year there is shortage of drinking water. The situation has been deteriorating from year to year. Supply of water to Kandla complex from Machhu II Dam is the only permanent solution of acute water problem of this region. The State Government has sanctioned reconstruction of Machhu II Dam. Simultaneously, the laying of water pipe lines for Kandla complex should be given green signal, for which special provisions had been made to lay these pipe lines across little Rann of Kutch on Surajbari Bridge.

(f) *Power*

Power failure and load fluctuations are very frequent, thus, hampering production as well as damaging of equipments. In this connection, there was a proposal to have a captive generation arrangement within the Zone. If uninterrupted power supply is to be assured it is also imperative for the State Government to ask the Gujarat Electricity Board to instal a captive power station. In case of a snag, a private enterpreneur may be permitted to start a generation plant within the Zone.

(g) *One-window Service*

There should be real one-window service available to the entrepreneurs from the Zone Administration for getting power, water, telephone/telex connections and if possible, financial assistance from the State Financial Agencies.

Views of the Government

2.5.2 The Ministries of Commerce (Department of Commerce), Communications (Posts and Telegraphs Department), Tourism and Civil Aviation, Railways (Railway Board), Shipping and Transport (Transport Wing) in their written information have stated as follows :

(a) *Implementation of recommendations of the Kaul Committee*

Ministry of Commerce (Department of Commerce) communication dated the 22nd August. 1984

A statement showing the recommendations made by the Kaul Committee and action taken thereafter as well as the present position of each recommendation is enclosed (*See* Appendix IV).

(b) *Telecommunication Services*

Ministry of Communications (Posts and Telegraphs Department) communication dated 10th August. 1984.

The petition has referred to the unsatisfactory state of telecommunication services in Gandhidham, which is affecting the growth of Kandla Free Trade Zone. The basic reasons for inadequacies in telecom services are :

(i) Existence of manual telephone service at Gandhidham (which also serves Kandla Free Trade Zone) and consequent limitations on handling traffic and delays.

(ii) Existence of older version of microwave link connecting Gandhidham to Jamnagar, performance of which is not very stable

These limitations have been brought to the notice of Kandla Free Trade Zone authority from time to time.

(2) The plans for improvement of telecom services at Kandla are as under :

(i) The existing 1560 lines manual exchange at Gandhidham would be replaced by containerised electronic exchange of 2000 lines before March, 1985.

(ii) After automatisation of Gandhidham Exchange, Gandhidham electronic Exchange is planned to be connected to proposed Rajkot digital TAX. However, as an interim arrangement, Gandhidham Electronic Exchange is proposed to be connected to Ahmedabad Trunk Automatic Exchange in 1985-86. For STD calls to Ahmedabad subscribers, connecting Gandhidham Electronic Exchange to Ahmedabad incoming trunk tandem is under examination.

(iii) Inter-dialling between Kandla Free Trade Zone Exchange and Kandla Port Trust Exchange will commence during the current year i.e. 1984-85.

(vi) Capacity of the existing microwave system between Gandhidham and Jamnagar will be augmented and through circuits provided to Ahmedabad. A wide band microwave system

connecting Jamnagar and Ahmedabad *via* Rajkot and Bhavnagar will be commissioned by March, 1985.

(v) Telex traffic from Gandhidham and Kandla will be routed to Bombay electronic telex over satellite link *via* Bhuj earth satellite station. This station is already having 4 speech channels, each to Bombay and Delhi through the INSAT-1B satellite. One of the Bombay channels will be used to provide 24 channel FMVFT system required for telex and telegraph circuits.

(3) Implementation of all the above schemes progressively will substantially improve the telecom services to the subscribers of Kandla Free Trade Zone and around in next two years.

(*c*) *Change of Kandla-Bombay Flight Timings*

Ministry of Tourism and Civil Aviation (Department of Civil Aviation) communication dated the 17th August, 1984.

Vayudoot commenced its operations on Bombay-Kandla-Bombay sectors with effect from 23th June, 1983 with HS-748 aircraft capacity taken on lease from Indian Airlines with the following timings :

PF-301				*PF-302*
0630	D	BOMBAY	A	1010
0810	A	KANDLA	D	0830

These timings were revised with effect from 19th March, 1984 as under :

PF-301				*PF-302*
1600	D	BOMBAY	A	1940
1740	A	KANDLA	D	1800

The change in the timings was necessitated due to the inability of Indian Airlines to release aircraft capacity during morning hours as one of their Avro aircraft was permanently grounded at Hyderabad and the Corporation had to withdraw one Avro aircraft from Bombay for placing it at Hyderabad. Indian Airlines accordingly informed Vayudoot that they would be in a position to release the aircraft capacity in the evening only. In the circumstances, the change in timings had to be made on account of circumstances beyond the control of Vayudoot. Consultation with the local users would not have changed the position and hence no consultations were made.

(d) *Train Services*

Ministry of Railways (Railway Board) communication dated 22nd August, 1984

(1) The suggestion to introduce a superfast train in addition to the existing trains is very much appreciated but the Railways' position of resources as at present does not permit introduction as such a train on account of acute shortage of coaches, diesel engines and line capacity on the Bombay-Surat and Vadodra-Ahmedabad section. The suggestion, however, will be duly considered as and when the resource position permits.

(2) Suitable shuttle trains between Bhuj-Gandhidham-Kandla Free Trade Zone and between Kandla Port-Kandla *Free Trade Zone-Gandhidham-Bachau-Samakhiali-* Adequate train services exist between Bhuj and Gandhidham/Kandla port for the shift workers working in the Port. The traffic pre-dominantly is short distance traffic and in accordance with the recommendations of the National Transport Policy Committee as well as the Railway Tarrif Enquiry Committee and Railway Reforms Committee, it has been recommended that Railways should not expand their services for short distance passenger traffic as road transport is overall cheaper. They have, therefore, recommended that for short distance traffic feasibility of introducing more buses by the State Governments should be explored.

Besides the above recommendations which have been accepted by the Governement, introduction of more shuttle trains is not feasible on account of the following :—

(i) Acute shortage of Metre Gauge coaches and locomotives.

(ii) Kandla Free Trade Zone situated 5 kilometres from Gandhidham is a siding which is not being worked at present and for introduction of passenger services, heavy investments would be required. As it is, the Railways are short of funds for essential development work and it would not be possible to develop facilities for running shuttle services to the Kandla Free Trade Zone.

It is also learnt that out of a total of about 7,000 working force in the Free Trade Zone about 3,000 to 4,000 workers are already having facility by bus services organised by the industries as also by the State Transport Corpor-

ation. These bus services are plying at frequent intervals providing stoppage near the Free Trade Zone. Under the above circumstances, Railways do not consider expansion of the passenger services feasible.

(*e*) *Water*

Ministry of Shipping and Transport (Transport Wing) communication dated the 21 August 1984.

There is a shortage of water supply in Gandhidham area. The present assured supply is only 36 lakhs gallons per day as against the demand for about 50 lakhs gallons per day. The result is that no industry requiring water for processing purpose is being allowed to be set up in the area which has an adverse effect on the development of the area. The responsibility for developing sources of water supply to this area is of the State Government. The Government of Gaujarat had in 1980 constituted a Committee to assess the water requirements of the area during the next 15 years and to identify the water sources to meet the requirements. The Committee assessed the water requirement for 1995 at 171 lakh gallons per day and recommended certain measures for development of water resources. These include drilling of eight tube wells in Bhachau area and laying of pipeline from Machu II Dam to Gandhidham. The work of reconstruction of Machu II Dam is in progress and is expected to be completed in 1986. Laying of pipeline from the Dam to Gandhidham, a distance of about 140 miles, would take about two to three years. Therefore, it is essential that the Gujarat Government take up the pipeline work immediately.

(*f*) *Power*

During the course of informal discussion duirng the Study Visit, the representative of the Gujarat State Electricity Board informed the Committee that the present fluctuation and erratic supply of electricity would improve after 15 July, 1984 when the job undertaken by them to cover the wire at various points was completed.

(*g*) *One-Window Service*

Ministry of Commerce (Department of Commerce) communication dated the 13th September, 1983.

The KAFTZ Board functions as a one-window clearance for evaluation and sanctioning of projects, Centralisation of other clearance needs study and concurrence of concerned authorities.

(III) Incentives and Concessions

Views of the petitioners/Gandhidham Chamber of Commerce and Industry/ /KAFTZ Industries Association.

2.6.1 The representatives of the petitioners and others have made the following submissions before tne Committee :—

(a) Incentives

The incentives offered by the Government for setting up of a unit in Free Trade Zone are totally poor and inadequate looking to the geographical disadvantages and backwardness of the region. These are neither comparable with those offered by. other export promotion schemes of the Government, nor attractive enough when a comparison is attempted with the incentives offered by the Free Trade Zones in other countries such as, Sri Lanka, Singapore and Taiwan. This clearly is one on the reasons why foreign investors shy away from India. An Indian investor may take the opportunity offered in a Free Trade Zone after a superficial scrutiny and it is a fact that the incentives offered in a Free Trade Zone are not at all attractive even to the Indian investors

(b) Tax Holiday

The present Tax Holiday policy which was announced belatedly allowing 5 years period as Tax Holiday is hardly adequate on account of the following:

(i) Almost 3 years are accounted as gestation period for a unit before it starts making profit;

(ii) Units in Free Trade Zone normally function partially.

In view to this' the Tax Holiday should be extended to ten years period which will also bring at par with what is available in Free Trade Zones located in other countries. The old working units in the Zone should also be made eligible for this concession.

(c) Domestic Market Support

The present policy of permitting to sell 25% of production in Domestic Tariff Area to a person holding valid import licence does not make efficient room for the units in Free Trade Zone for the reason that they do not get a

person holding valid import licence. The following suggestions are made in this regard to provide domestic market support to the units in Free Trade Zone in a realistic way :

(i) Domestic Tariff Area sale should be delinked from import licence.

(ii) 25% should be exclusive of sub-standard goods and samples.

(d) Entrepot Trading

In Free Trade Zones located in other countries, the trading is freely permitted. Cairo is a live example in this regard. Trading should also be permitted in KAFIZ so far as the added-value criteria is satisfied and the sale proceeds are received in foreign currencies. Entrepot trade and stock piling may also be permitted in KAFTZ. In one of its earlier publications, the Government of India had also declared that entrepot trade and stock piling will be permitted in KAFTZ. Such a trade may be permitted to convertible currency area only for some specific items.

(e) Market Development Fund

Out of necessity, the Zone exporters have to carry out various market development activities such as-

(i) participation in foreign exhibition ;

(ii) undertaking planned advertisement compaign for promoting its product and corporate image;

(iii) issue of modern catalogues, brochures, leaflets and publicity gifts etc;

(iv) undertaking of export promotion tours either individually or in a team/delegation;

(v) inviting foreign buyers to visit exporter's work to assess the quality standards, production capacity and delivery schedules etc; and

(vi) study of the market trends in design, finish and overall presentation of products.

To begin with, a sum of Rs.50 lakhs be allocated annually to this Zone. The Zone units can in turn receive grants out of this allocation through the

Zone Administration, for their individual activities and thus subsidise their selling and marketing expenditure to some extent.

(*f*)* *Essential Service Status for Free Trade Zones*

It does not require any need to underline the importance of continuity in the operation of the units located in the Free Trade Zone as they are operating against rigid export commitments. KAFTZ be granted status of an essential service area.

(*g*) *Disposal of Scrap and Waste*

Every unit which carries out manufacturing activity is bound to generate scrap/waste which can be cleared/destroyed after its generation rate has been fixed and notified by Ministry of Finance. Despite the fact that it is more than two decades that the Free Trade Zone at Kandla has been functioning, there are no clear guidelines and no speedy procedures to clear and remove wastages, rejections, by-products or substandared goods from the Zone. This has resulted in very great hardships to the units within the Zone. Not only these wastes, rejects, by-products and sub-standard goods occupy valuable commercial and indnstrial space and pose a fire/security hazard, they also tie up considerable financial resources of the units. Even units using 100% indigenous raw materials are not allowed to clear waste/rejects.

(*h*) *Charging of duty on imported packing material and exemptions from payment of custom and excise duties imported for export production*

Presently, as per Ministry's directive, KAFTZ Administration is collecting duty on the used packing material in which imported goods are received, when cleared from KAFTZ. This is totally unjustified particularly in the light of the Custom Notification No. 184/76 of 2. 8. 1976, where by parallel importers of Domestic Tariff Area get exemption on disposal of similar used packing material.

It is gross discrimination against Zone Units and must be removed.

Time and again, we have requested for a general exemption from payment of Customs and excise duties on all goods that are used for production or in connection with the production of export goods or for its packaging or export promotion. Although the concerned authorities concede the validity of the request, yet the modified notification is not yet issued and the zone units continue to suffer on this account unnecessarily. The Association seeks

immediate removal of such anomaly by issuing a general notification exempting all items imported into KAFTZ.

Views of the Government

2.6.2. The Ministries of Commerce (Department of Commerce) and Finance (Department of Revenue), in their written comments have stated as follows:—

(*a*) *Incentives*

Ministry of Commerce (Department of Commerce) communication dated the 3rd July, 1984.

(1) Towards a successful functioning of the funds in the Zone and to generate exports, the Government has offered a liberal package of incentives to the units in the Zones. The following incentives and concessions are proivded to units working in the Zones:—

(i) *Streamlined administration*: All approvals are given at one single point within 45-60 days and formalities for import and export are expeditiously dealt with.

(ii) No import licence is required for import of capital goods, raw materials consumables, spares, tooling or packing meterials as import of these items is placed under open General Licence. Import of second hand/used machinery is subject to the approval by the FTZ Board.

(iii) Exemption from custom duty and additional/countervailing duty on raw materials, components, consumables, spares, tooling and packaging material etc. imported into the Zone.

(iv) Exemption from central excise duty and other levies on products manufactured within the Zone or the goods brought into the FTZ from DTA for use by the industries for the production or in connection with the production of goods for export.

(v) Capital goods and all other inputs supplied to the Zone from the rest of the country are treated as deemed exports and are eligible for all export benefits.

(vi) Duty free import of capital goods and equipments from perferred sources.

(vii) Special dispensations and relaxations in municipal tax, octroi, sales tax, property tax etc.

(viii) The statement on industrial policy authorises the Government to approve even fully owned foreign companies in 100 per cent export oriented ventures.

(ix) Corporate tax holiday for an initial period of 5 years with effect from the year 1981-82.

(x) Cash subsidy of 15% of fixed capital subject to a maximum cash grant of Rs. 25 lakhs for units set up after November 1, 1977, has been granted by the State Government of Gujarat.

(xi) Central sales tax paid on purchase from outside the State is reimbursed by the Zone Administration.

(xii) Exemption form the restrictions under export control order on products manufactured and exported from FTZ. Liberal sanction of foreign exchange including blanket permit for business visits abroad.

(xiii) Term finance at very low rates of interest for fixed assests.

(xiv) Packing credit facilities for a period of 180 days without production of firm export orders of letter of credit.

(xv) 25% of total production is also permitted clearance for domestic sale on payment of duty, against valid import licences.

(xvi) Remittance of profits and dividends earned by foreign investors in the Zone is allowed freely after payment of taxes.

(xvii) Priority of release of cement/steel and telephone/telex connections.

(xviii) Transport subsidy equal to 2% of the f.o.b. value of exports ex-Bombay and 1% of f.o.b. value exiKandla.

(2) *Investment Policy in the Zone*

Since the units in the Free Trade Zone have 100% export obligation, the normal restrictive policies governing foreign investments for industries meant for domestic production and consumption are not applied. The normal ceiling for foreign investment in a venture is 40%. However, in a very high technology area and export oriented units the industrial policy permits higher foreign

investment. Since the Zone is entirely export oriented, we generally do not restrict the extent of foreign equity though the approvals are given on case to case basis on merits.

Incentives in Indian Free Trade Zone vis-a-vis Free Trade Zone in other countries such as Taiwan, Sri Lanka and Singapore.

Ministry of Commerce (Department of Commerce) communication dated the 22nd August, 1984.

A study was conducted by a 4- man team in January, 1977 with a view to studying the clearance procedures available in the Free Trade Zones in the neighbouring countries and suggest a simplified procedure. In addition to the procedures, the team also identified the important factors responsible for success of the Zones. These included fiscal incentives, depreciation of capital goods, participation in the domestic market, labour relations and employment of women. Study was mainly with reference to procedural aspects.

No specific study with respect to incentives available in other Free Trade Zones was made. However, on the basis of information available, a statement showing incentives available in India and other FTZs is enclosed (See Appendix V).

Considerable time has elapsed since the study was made and while several improvements have been made and additional incentives provided, several new issues have come up which would merit a more comprehensive study. This study could have special reference to the viability of a particular type of industry, the institutional arrangements for promoting growth of industries in the Zone, the establishment of backward linkages and the development of infrastructure within the Zone and in the hinterland the marketing and promotional activities, which have been undertaken by the successful zones attracting foreign investments and up gradation of technology.

(*b*) *Tax Holiday-Inerease in the period from five to ten Years*

The recommendation has been supported by the Commerce Ministry and a proposal has been sent to the Finance Ministry (CBDT). Their clearance is awaited.

(*c*) *Entrepot Trading*

In this context it may be stated that similar recommendations have also been made subsequently by the Tandon Committes. This question has

been disurssed in inter-Ministerial meetings and a view has already been taken that trading and manufacturing activities should not be mixed, for the present, in the same zone and the trading activity, if any, should be unconnected and separate from the zones meant for manufacturing activities.

(d) sale of FTZ goods in DTA

(*i*) With regard to DTA sale being delinked from import licence, it may be mentioned that this question has further been examined as a recommendation of the Tandon Committee. While the recommendation has not been accepted in totality, it is being considered in consultation with Department of Revenue to relax the conditions in a manner to pemit 25% of the goods being sold as per the provision of the import policy in force without insistence in cases of items on open general licence, on a valid import licence.

(*ii*) Regarding 25% DTA sale to be exclusive of sup-standard goods samples, the present notification of customs indicates that it will be inclusive of rejects and sub-standard goods. However, the matter will be pursued with the Ministry of Finance (CBEC) to exclude the rejects and sup-standard goods from the purview of the percentage fixed for DTA sales.

(e) *Market Development Fund—Allocation of Rs. 50 lakhs to KAFTZ*

At present assistance from Marketing Development Fund is available for the payment of (i) Transport subsidy to Zone Units, (ii) Cash Compensatory Support and other export benefits to the DTA suppliers of goods to the FTZ units and (iii) the reimbursement of Central Sales Tax being paid by the KAFTZ Units.

The proposal to give MDA grant from Market Development Fund to Zone units to undertake market development activities including participation in international fairs etc. will be processed for consideration of the competent authority.

(f) *KAFTZ to be declared as essential service area*

The Chief Minister of Gujarat, during the last meeting of KAFTZ Authority held on the 18th July, 1983 at Kandla had informed the Authority that the notification declaring Kandla Free Trade Zone industries as public utility services had been issued.

Ministry of Finance (Department of Revenue) communication dated 16th August, 1984

(g) *Disposal of scrap/waste*

(i) *Statutory provisions and guidlines laid down for disposal*

Notification No. 77-Cus dated 17.4.1980 as amended envisaged that the importer shall maintain a proper account of import, consumption and utilisation of goods and of exports made by him and shall submit such accounts periodically to the Development Commissioner, in such form and in such manner as may be laid down by the said Commissioner.

The following goods will not be required to be accounted for under the aforesaid condition by way of export namely, "Scrap or waste material arising in the course of production of goods within the Zone if cleared from the Zone for use in any other part of India on payment, of the duty equal to that leviable on the goods if imported in that form provided that if the percentage of scrap or waste material exceeds the specified percentage in Col. 4 of the table below, as at Notification No. 77-Cus, the duty equal to that leviable on the goods specified in Col. 3 there of, out of which the scrap or waste material has arisen, shall be charged on the excess quantity.

(ii) *Number of applications received by them for disposal of scrap and the period for which these are pending*

The applications for disposal of scrap are not directly received by the Department of Revenue. These applications are forwarded to the depelopment Commissioner of the Zone. On receipt of the applications the Depelopment Commissioner carries out studies and forwards the recommendations to the Department of Revenue for issuing relevant Notification.

(iii) *The time prescribed for clearance of these applications*

In view of (ii) above, it is not possible to prescribe any time limit for clearance of the applications for disposal of scrap and waste.

(iv) *Comments on the Note submitted by Shri N.P. Mehta, a petitioner re-clearence of the scrap and waste from KAFTZ* (*See* Appendix VI)

(i) It is a statement of fact that waste and scrap arise out of manufactuing activity.

(ii) It is a fact that upto 15.2.1984 percentage of waste was fixed in respect of only 11 items. On 16.2.84 Notification was issued fixing the percentage of scrap and waste in respect of 5 more products. This percentage was fixed after taking into consideration the percentage of scrap or waste which is allowed in respect of the other Schemes administered by the Department of Revenue. Since the percentage of scrap or waste as allowed in respect of the production in the zone should not be different with those allowed under duty drawback scheme or duty exemption entitlement scheme, there could be possibility of variation in the percentage of waste scrap proposed by the Development Commissioner and that finally accepted by the Department of Revenue. The percentage of scrap or wastage reported by the Development Commissioner are generally more than that observed in cases of scrap or wastage reported under Duty Drawback Fixation Statement.

(iii) The petition refer to the recommendation of the Tandon Committee for making more realistic rules for disposal of sub-standard goods, obsolete equipment and rejected waste and scrap material which creates problems with the authorities and seeks the vesting of the powers for fixation of percentage with the Development Commissioner.

As stated earlier the percentage of scrap or waste as admissible should be one and the same in respect of different Scheme like Export Processing Zone, Duty drawback, Duty Free imports against replenishment licence, duty exemption entitlement Schemes. Accordingly, it would not be desirable to vest the power for fixation of percentage of scrap or wastage with the Development Commissioner of Kandla Free Trade Zone.

(iv) It is admitted that the scrap and wastage as generated by the manufacturing Units are forwarded to the Department of Revenue after obtaining comments from agencies like Small Scale Industries, Director, Textile Commission, etc. There could be some dalay in receiving their recommendations. This Department does not have detailed information on this issue.

(v) The power for fixing percentage of scrap and waste cannot be delegated to the Development Commissioner in view of the fact that uniformity has to be ensured in respect of such fixation under different Schemes. Also, it is not possible to allow different percentages for different units. The percentage as fixed is arrived at after

taking into consideration various factors and which is an approximate norm in respect of a product. It is not possible to allow higher wastage merely on the ground that a Unit engages an obsolete machinery or adopts out of date technology.

(vi) As stated earlier it is not possible to delegate the power of fixation of waste or scrap for the Units operating in the Zone by the Development Commissioner. The Department is alive to the problem of generation and accumulation of scrap in the Units operating in the Zone. A Notification is under issue for lying down guidelines in respect of waste paper, cloth cuttings, known as chindis and waste packing material which happen to the main items of scrap generated during the manufacturing process by the units in Zone.

(vii) Reply as in para (vi) above.

(h) *Charging of duty on imported packing material and exemption from payment of customs and excise duty on goods imported for export production*

Charging of duty on imported packing material—Facts are being ascertained and the Committee will be intimated accordingly.

Exemption from payment of customs and excise duty on goods imported for export production/promotion—The Customs Exemption Notification covers the following goods when imported into India for the production of goods for exports out of India or for being used in connection with the production or packing of goods for exports out of India or for the promotion of such exports :

(i) Machinery.

(ii) Raw materials.

(iii) Components.

(iv) Spare part of machinery.

(v) Consumables.

(vi) Packing materials.

(vii) Office equipments, spares and consumables thereof.

(viii) Goods reimported within one year from the date of the exportation from the Zone due to the failure of the foreign buyer to take delivery or for repairs.

(ix) Tools, jigs, gauges, fixtures, moulds, dyes, instrument and accessories.

(x) Prototypes, technical and trade samples for development and diversification.

(xi) Drawing, blue prints and charts.

Thus, the list of goods allowed duty free imports are comprehensive enough to cover all items required for production of the goods for manufacturing goods for exports out of India. Moreover, on the basis of approval accorded by the KAFTZ Board, even Semi-finished goods have been allowed the benefit of duty free import under the aforesaid exemption Notification. No specific difficulty as regards duty free imports of items not covered under the exemption Notification has been cited. As such, the allegation that the Units in the Zone continue to suffer on this account is not correct.

(VI) Administrative Support

(a) *Separate Act for Free Trade Zones*

2.7.1 It has been represented that KAFTZ is perhaps the only all purpose zone in the world, which has no pivotal support of a full-fledged Statute. Without the support of a Statute, many of the procedure simplifications and financial incentives seem to be of quite temporary nature and effect. The Zone is managed by Nctifications only which are issued on whims and wills of individuals, mostly of Joint Secretaries or Under Secretaries only. Ordinarily, for long term investment plans, incentives and facilities should be of permanent and steady nature and type. Hence, immidiate steps should be taken to bring forth a separate Act to govern Free Trade Zones in the country as per practice all over the world.

2.7.2 In their memoranda to the Committee, the President, KAFTZ Industries Association and the President, Gandhidham Chamber of Commerce and Industry, Gandhidham stated that in the absence of an Act KAFTZ was governed by piece-meal notifications and regulated by annual ITC policy which introduce an element of uncertainty/instability. A separate Act had been sought since long back and the need had already been appreciated and

recommended by the Kaul Committee as well as by the Task Force (Tandon Committee).

It was their firm conviction that a separate Act of Parliament in this regard would achieve the following desired results for a continued and lasting development of this and the other zones in the country :—

(a) the Act will end uncertainty about the functioning of the Scheme ;

(b) the Act will inspire greater confidence in investors both within and outside the country; and

(c) the Act will act as bulwark against the much feared bureaucratic manoeuvring".

2.7.3 In their factual note the Ministry of Commerce have stated that Government is already considering bringing forward a comprehensive legislation for the administration and control of free trade zones in the country. Framing of this legislation is in an advanced stage. The Tandon Committee has also recommended for the constitution of an Authority which will encompass all the aspects relating to the functioning of free trade zones in the country.

(b) *Posts and Powers of Development Commissioner and that of Collector of Customs*

2.8.1 In the representation, the petitioners have demanded that to improve the administration of KAFTZ, the posts and workings of Administration and Customs should be separated properly and earmarked clearly, with a view to enforce laws of the land and also to provide honest administration in both wings of KAFTZ.

2.8.2 In their note submitted to the Committee during their visit to KAFTZ, the petitioners have stated that separating the posts and powers of Development Commissioner and that of Collector of Custom at this stage, will not be proper step in right direction, when they have also demanded in their petition, 'one window service' in the Zone, to avoid multiplicity of authorities and agencies as suggested in the report of the Tandon Committee, that since Customs and Excise are the king-pin of a Zone Administration, the Zone Admistrator must be given all the powers of the Collector of Excise and Collector of Customs in respect of Zone area.'

2.8.3 In this connection, the Gandhidham Chamber of Commerce and Industry and KAFTZ Industries Association have pointed out that all along

it has been mooted by one and all in unison and recommened by Kaul Committee and Task Force that there should be One Window Service being a major attraction for any investor to come to a Free Trade Zone. This contemplated move will affect the present one stop clearance facility and the units will be subjected to lot of predicaments due to multi-authorities and clearance would entail considerable delay.

2.8.4 In their written note dated the 16th August, 1984, the Ministry of Finance (Department of Revenue) have stated as follows :

> "The Development Commissioner, Kandla Free Trade Zone was appointed as Collector of Customs in 1967. It may be recalled that the powers of the Collector of Customs were vested with the Development Commissioner at a time when the post was occupied by one of the Collectors of Central Excise and Customs. Anybody and everybody appointed to the said post without Customs background is not expected to take decisions at the level of Collector as he would not be having detailed background for taking decision on Customs matters. Instances have come to the notice of this Department where certain decisions have been taken on the basis of the wrong interpretation of the exemption Notification. This has occurred possibly because the Development Commissioner acting as Collector of Customs did not have necessary background for taking decision on custom matters. In a recent case, clearance of substandard material namely soap was from the Zone without any provision for such release under the law. Since the present arrangement of having a Development Commissioner without any background of customs laws was fraught with serious revenue risk, the Department decided to withdraw the power of Collector given to the Development Commissioner. Moreover, a ful-fledged Collectorate is operating at Rajkot and Kandla also have a similar set up under Deputy Collector of Customs."

(c) *Diversification of Export*

2.9.1 It has been stated in the repesentation that the recent development of Zone is only because of the lucrative concessions given as per recommendations of the Kaul Committee for KAFTZ, but majority of the exports as much as 90% is to Rupee Payment Areas only for which imports are from convertible currency areas. This is neither healthy development nor it earns

foreign exchange, which was one of the prime objects, behind setting up of the KAFTZ.

2.9.2 In a memorandum to the Committee, the petitioners have stated that the development of the KAFTZ has not been of a permanent nature, as it is predominantly dependent on USSR market. Our dependence on one market is neither healthy nor desirable, and no efforts have been made to diversify the exports from KAFTZ. They have suggested that the units exporting and making efforts to market in convertible currency countries should be given priority in various services by the Administration and some special benefits/incentives.

2.9.3 In their written note furnished to the Committee, the Ministry of Commerce (Department of Commerce) have furnished the following figures of the amount of foreign exhange earned by KAFTZ by export to Rupee Payment Area countries during the last four years :

Year	*Total export of KAFTZ during the year*	*Export to USSR/RPA countries*
1980-81	25.51 crores	16.91 crores
1981-82	70.04 crores	59.99 crores
1982-83	142.43 crores	128.55 crores
1983-84	107.46 crores	99.63 crores (Provisional

2.9.4 When enquired by the Committee whether the raw-material was imported or finished or semi-finished goods were imported, and their break-up year-wise and country-wise during the last 3 years, the Ministry of Commerce (Department of Commerce) in their communication dated the 3rd July, 1984, have stated that the statistics regarding import of raw-materials in finished/ semi-finished form, year-wise and country-wise are not maintained by KAFTZ Administration. The import of raw-materials is allowed as per the approval granted by KAFTZ Board/Ministry of Commerce.

(d) *Development of traffic and Kandla Port*

2.10.1 Dr. Mahipatray M. Mehta, M.P., during the course of informal discusssion, pointed out that Kandla Free Trade Zone was developed to

2.10.2_ It has been pointed out to the Committee by the Gandhidham Chamber of Commerce and Industry and Kandla Port achieved second position among the country's ten major ports for the volume of traffic handled during the year ended March, 1984. However, the traffic handled at the Kandla Port is overwhelmingly import traffic, resulting in one-way utilisation of the inland transport facilitties provided to clear the traffic from the Port. This one-way traffic is gross under-utilisation of national resources and a loss to the nation.

2.10.3 In this connection, the following suggestions have been made :

(i) The Government should devise schemes to attract commercial traffic to this port so that the national inland transport could be used both ways and the part could really contribute to the prosperity of the nation. In this regard a direct broad-gauge link with the hinterland will prove a boon to the attraction of commercial traffic at this part.

(ii) Regular liner services, be introduced at Kandla. In this respect S.C.I. (Shipping Corporation of India) should make the beginning. The liner service in the beginning be on trial basis for say 6 months and then it can be converted in the regular service. But a beginning has to be made. When once liner service has commenced at Kandla, automatically the import and export cargo generated at Free Trade Zone will start flowing from Kandla.

(iii) All the States of Northern India be pressurised to import or export goods through Kandla instead of from Bombay. Kandla is the only port where movement on both the broad-gauge and meter-gauge Railway is possible. The railway lines are laid right upto the jetty. Hence, the movement of railway wagons is very easy. The Gujarat Government should also make the beginning.

(iv) To attract cargo at Kandla, asubsidy in freight charges by way of ocean freight subsidy of 1 to 2% may be introduced for a period of 5 years on goods exported from Kandla. Similarly, some concession in port charges may be introduced on import cargo. The port charges at Kandla are high and these may be reduced.

2.10.4. The Chairman, Kandla Port Trust, informed the Committee that Kandla Port was a sixth major port in India. Liner traffic to Kandla Port was subject to cargo business. Minimum 500 tonnage was required for small liners. He was attending meetings of Chamber and Commerce and

Export Councils in order to attract cargo traffic to and from Kandla Port. It would take time to develop regular traffic from Kandla Port.

2.10.5. In their written information, the Ministry of Commerce (Department of Commerce) have stated that in order to encourage Import/Export traffic in general cargo the Kandla Port have offered various incentives from time to time. The highlights of these incentives extended to the ship owners and shippers are given as under:—

(a) To Ship Owners

(1) Priority berthing of vessels including container vessels loading and unloading cargo on liner terms.

(2) Supply of free lighterage and towage services for liner cargo ships when alongside berths are not available.

(3) 50% concession in shipping charges on all general cargo vessels loading and unloading cargo up to 3000 tonnes. These charges are for services like pilotage, berth hire, etc.

(4) Exemption from payment of additional fee for pilotage and use of port tugs on Sundays, Port holidays and night operations in respect of general cargo vessels loading/unloading upto 3000 tonnes of cargo.

(5) Exemption from shifting charges and Fees for use of tugs for shifting general cargo vessels loading/unloading cargo up to 3000 tonnes.

(6) 25% concession in crane charges when cranes are used for loading export cargos in the ships.

(b) To Shippers

(1) Grant of 25% rebate in wharfage charges on cargo exported to foreign as well as Indian ports except in cases where separate rates of export wharfage are indicated.

(2) Grant of 25% rebate in storage charges for cargo exported to foreign as well as Indian ports.

(3) Providing adequate covered space in port ware-houses situated 100 feet behind the transit sheds at nominal rent.

(4) Provision of a free period of fifteen days in transit area for export cargo as against the free period of 4 days for import Cargo.

(5) 50% concession in cargo lift charges for the lifts provided in the warehouses for hoisting cargo to first floors of warehouses.

(6) 25% concession in crane charges for cargo loaded in chartered vessels.

The package of incentives and concession has proved to be extremely attactive both to the shippers and ship-owners. More and ships carrying variety of general cargo have started arriving at the port, consequently the berth utilisation went upto 97 per cent during 1981-82. Even the Port's existing capacity for handing both dry cargo and liquid cargo was utilised to the extent of 121 percent and 114 percent, respectively, in the year 1981-82.

(*e*) *Labour Laws*

2.11.1. The petitioners have stated in the representation that most of the KAFTZ units have scant regards for the labour laws of the land. Child labour, contractual labour and many other aspects of breach of the labour laws are day light happenings in KAFTZ. The petitioners have submitted that labour laws should be strictly enforced in very Zone Units and enforcing machinery should be created on the site itself in KAFTZ.

2.11.2 In their memorandum submitted to the Committee at Gandhidham, the representatives of KBFTZ General Workers' Union, Gandhidham ave submitted that no industries of Kandla Free Trade Zone, except a very few, which are engaged in production/manufacture of caster oil, soaps and pharmaceutical items and employing about 500, out of the total work-force of 7,000 workers of the Zone, are covered under the Minimum wages Act. The workers are highly disillusioned at the payment of meagre amount of Rs. 4/- to Rs. 10/- per day in most of the industries.

The agony of the workers of this Zone is that even the State Labour Laws Enforcement Machinery is turning a deaf ear to their plight. The industries of this Zone are not brought bg the State Labour authorities in the fold of the provisions of the Minimum Wages Act, even though in most of the industries here more than the minimum number of the required workers are employed. The provisions of the Factories Act are also not being followed by the industries.

2.11.3 They have made the following demands ;—

(i) all the industries of the Zone should be brought under the Minimum Wages Act;

(ii) the State Government should ensure that the Industrial Laws are not flouted in the Zone;

(iii) the State Government should refer the disputes to Labour Courts/ Tribunals etc. wherever such reference are required by avoiding delay tactics in doing so;

(iv) the employment of Contract Labour, Child Labour etc. should be strictly prohibited in the Zone;

(v) no industries should be allowed to resort to the tactics of lay offs/ retrenchment etc;

(vi) the Police should be restrained from interfering in the matters relating to Industrial Disputes ; and

(vii) the orders declaring the Industries in the Kandla Free Trade Zone as Essential Services should be quashed in the larger interests of the workers and the country.

2.11.4 In their factual note dated the 13 September, 1983, the Ministry of Commerce have stated that "all efforts are made to ensure implementation of labour laws in KAFTZ. The State Government will be advised to adequately strengthen labour laws enforcement machinery as this be in the larger interests of the zone for ensuring industrial peace."

2.11.5 The representative of the Department of Labour of the State Government of Gujarat informed the Committee during informal discussion at KAFTZ that the labour laws were being implemented by them and necessary steps were taken to prosecute the industries where such laws were being flouted.

(f) Development of Gandhidham Township

2.12.1 The petitioners have submitted that growth of the Gandhidham town is the responsibility of Kandla Port. It is gradually diverting the responsibility of development of the town. All development of the area surrounding the Kandla Port should be undertaken by the Port authorities.

2.12.2 In this connection, the Gandhidham Chamber of Commerce and Industry have submitted before the Committee as follows:

The Government of India in the Ministry of Transport through the Kandla Development Commissioner had undertaken the Development of Gandhidham, the township of Kandla Port, as subsidiary of the project for development of the Major Port, so as to provide facilities for rehabilitation of trade, commercial and industrial interests connected with the working and economy of the Major Port.

Kandla Port Trust has during the last 26 years provided (in the first stage) about 3600 plots (excluding plots for port employees) out of which about 3450 plots have been leased out 2550 for residential and 900 for commercial and industrial purposes. Out of 2550 residential plots 810 are partly built upon.

Kandla Port has already recovered the cost of development of about Rs. two crores from the plot holders with interest. The private stake and investment in plots alone has increased to more than ten crores of rupees on account of capitalisation of interest lost and other outgoings since the great majority of plots being unbuilt yield no returns. They should be given inalienable right to property.

2.12.3 In their communication dated the 21st August, 1984, the Ministry of Shipping and Transport (Transport Wing) have stated as follows :—

"It is not correct to say that the development of Gandhidham Township had been undertaken by the Kandla Port Organisation to provide facilities for rehabilitation of trade, commercial and industrial interests connected with the working and economy of the Major Port. The development of the township was entrusted to the Kandla Port Organisation as there was at that time no other agency and the Kandla Port Organisation was already undertaking development of the Major Port. There was no question of rehabilitation of trade, commercial and industrial interests. The number of plots allotted to other than Port employees is 3800, out of which 2700 residential plats and 1100 non-residential. The are Port Trust has recovered from the plot holders Rs. 263 lakhs comprising Rs. 199 lakhs on account of development charges and Rs. 64 lakhs on account of interest. The expenditure incurred on development works upto March, 1984 is Rs. 326 lakhs. Therefore, it is not correct to say that the cost of development with interest thereon has been recovered from the plot holders. The plot holders have been granted lease of 99 years as per the policy of the Government. The Government directive has been not to transfer

absolute ownership but to give land on lease. Therefore, the request that the plot holders to whom land has been given on lease should be given inalienable right to property ownership, has not been acceded to."

D. Observations/Recommendations of the Committee

2.13. The Committee note the demands made by the petitioners in their representation and the position stated by the Ministry of Commerce (Department of Commerce) in their comments on the demands made in the representation. The Committee also note the submissions made before the Committee during their Study Visit by the petitioners, the representatives of the Gandhidham Chamber of Commerce and Industry and Kandla Free Trade Zone Industries Association and the representatives of the Ministries of Commerce (Department of Commerce), Finance (Department of Revenue), Railways (Railway Board), Shipping and Transport (Transport Wing), Communications and the Chairman, Kandla Port Trust and also by the Officials of the Labour, Electricity and Industry Departments of the Government of Gujarat as well as written information furnished subsequently by the aforesaid Ministries on points arising out of the informal discussions held during the Study Visit.

2.14. In regard to the submission made by the petitioners in their representation that the Kandla Free Trade Zone established in 1965 has failed to fulfil any of three objectives fixed for it, *i.e.* to earn foreign exchange for the country, to provide export traffic to Kandla Port and to industrialise and develop employment opportunities in the backward area of Kutch, the Committee note that although the activities at the Kandla Free Trade Zone started at a slow pace in the beginning, yet it has shown considerable improvement in the last two years and during the current year the exports from the KAFTZ are likely to touch Rs. 200 crores mark. In their note submitted to the Committee the Ministry of Commerce have stated that after 1976, the performance of KAFTZ has shown considerable improvement. At present, there are 98 working industrial units employing 7,500 workers. Keeping in view the number of industrial units working in the Zone and the employment generated for the people in the backward area of Kutch and exports made, the Committee feel that KAFTZ has made significant contribution towards the development of the backward area of Kutch in industrialisation as well as in providing employment opportunities and boosting foreign exchange earnings.

2.15. The petitioners have represented to the Committee that all the recommendations of the Kaul Committee (1978) and of the Task Force

(Tandon Committee-1981) in respect of KAFTZ should be implemented for sound and healthy development of the Kandla Free Trade Zone. They have pointed out that Government have yet to accept many of the vital recommendations of the Kaul Committee. The Ministry of Commeree (Department of Commerce) have stated that most of the recommendations of the Kaul Committee have been accepted and implemented. However, from the statement furnished by the Ministry of Commerce showing the action taken on the recommendations of the Kaul Committee, the Committee find that some of the recommendations mostly pertaining to Ministries other than Commerce, are still to be accepted and implemented. The Committee recommend that the Ministry of Commerce should take up the matter at Ministers' level and urge for the implementation of these recommendations expeditiously.

2.16 The Committee note from the submissions made by the petitioners and other local users during their Study Visit that air service from Kandla to Bombay has been provided but its timings are most unsuitable. They have demanded that Kandla-Bombay Flight timings should be in the morning. In this connection, the Ministry of Tourism and Civil Aviation have stated that Vayudoot commenced its operations on Bombay-Kandla-Bombay sectors in June, 1983 with HS-748 aircraft capacity taken on lease from the Indian Airlines in the morning hours. The change in the timings was necessitate due to inability of the Indian Airlines to release aircraft capacity during the morning hours as one of their Avro aircraft had been permanently grounded. The Indian Airlines was, therefore, in a position to release the aircraft capacity in the evening only.

The Committee feel that for gainful utilization of the Kandla-Bombay air service, its timings should suit the local users. For the development of the Kandla Free Trade Zone, Vayudoot has introduced air service from June, 1983. As this area is developing fast and more and more industries are being set up in the Zone, it is essential that their requirement for convenient and fast communications are given high priority. The Committee, accordingly, recommend that the Ministry of Tourism and Civil Aviation should reschedule the Kandla-Bombay flight timings in the morning hours.

In regard to the other demand for the introduction of air-link between Kandla and Ahmedabad and Delhi, the Committee suggest that the Ministry of Tourism and Civil Aviation may consider the demand and arrange to provide the air-link, if there is a traffic potential in these sectors.

2.17 It has been submitted before the Committee that two pairs of Passengers trains are running between Bombay Central anh Gandhidham on broad-

gauge line and it takes about 21 hours to cover about 800 Kms of distance It has been suggested that the running time of one of the trains between Gandhidham and Bombay should be reduced to 14 hours by avoiding unnecessary halts and also by reducing the halt timings. In place of Saurashtra Express, a new Super fast train may be started. Suitable shuttle trains betwween Bhuj-Anjar-Gandhidham-KAFTZ-KANDLA Port and Kandla Port-KAFTZ-Gandhidham-Bhachau-Samakhiali may also be started with suitable timings for workers.

In this connection, the Ministry of Railways (Railway Board) in their written information have stated that "the suggestion to introduce a Super fast train in addition to existing trains is very much appreciated but the Railways' position of resources as at present does not permit introduction as such a train.....".

The suggestion of the petitioners is for the introduction of Super fast train between Gandhidham and Bombay in place of the existing Saurashtra Express. The Committee recommend that Government should consider the feasibility of this demand of the petitioners.

2.18 As regards the demand for introduction of shuttle trains between KAFTZ-Gandhidham-Bhuj and Kandla Port-KAFTZ-Gandhidham-Bachau-Samakhiali, the Ministry of Railways (Railway Board) have stated that in accordance with the recommendations of the National Transport Policy Committee, Railway Tariff Enquiry Committee and Railway Reforms Committee, the Railways should not expand their services for short-distance passenger traffic as road transport is overall cheaper. They have also added that the introduction of more shuttle trains is not feasible on account of acute shortage of Metre-Gauge coaches and locomotives. Further, heavy investment is required to develop facilities for running shuttle services from Gandhidham to KAFTZ.

The Committee feel that the Ministry of Railways (Railway Board) have not given serious thought to the demand of the petitioners as the introduction of shuttle trains is not for short distance traffic, but it is required for daily commuters. Kutchis a backward area and a large number of workers are coming from far offplaces to work in the Kandla Free Trade Zone where they are being paidwages of Rs. 4/- to Rs. 10/- per day. There is no doubt that the rail transport is cheaper than the road transport. Keeping in view the interest of poor workers by providing them a cheaper means of communication, the Committee recommend that Government should find ways and means to provide adequate Railway facilities for the daily commuters by introducing the shuttle trains services required for them.

2.19 The Committee note from the submissions made by the petitioners as well as from the note submitted by the Ministry of Shipping and Transport that there is shortage of drinking water in Gandhidham. The Committee also note that the State Government have sanctioned reconstruction of Machhu II Dam which is expected to be completed by 1986. The Committee agree with the suggestion of the petitioners that laying of pipeline from the Dam to Gandhidham should start simultaneously. The Committee recommend that the Ministry of Shipping and Transport should take up the matter with the State Government of Gujarat at highest level in this regard.

2.20 In regard to the demand for increase in the period of tax-holiday from five to ten years, the Committee note that a proposal has already been submitted by the Ministry of Commerce (Department of Commerce) to the Ministry of Finance (Department of Revenue) (Central Board of Excise and Custom) for their clearance.

The Committee consider it a step in the right direction which will go a long way in industrialisation of the backward area of Kutch. The Committee trust that the Ministry of Finance would accord their clearance to the proposal expeditiously.

2.21 On the question of entreport trade, the Committee note the position stated by the Ministry of Commerce (Department of Commerce) that the matter has already been discussed and a view has already been taken that the trading and manufacturing activities should not be mixed in the same Zone. The trading activity should be unconnected and separate from the Zones meant for manufacturing activities.

2.22 It has been submitted before the Committee that even after two decades of functioning of KAFTZ, there are no clear guidelines and no speedy procedure for the disposal of scrap waste, rejections, sub-standard goods arising out of manufacturing activity from the Zone. This is causing great hardships to the units. These scrapped and sub-standard goods not only occupy commercial and industrial space but also have become a security/fire hazard and blocks the financial resources of the units. In their written note, the Ministry of Finance (Department of Revenue) have stated that the applications for disposal of scrap are forwarded to the Development Commissioner of the Zone who carries out studies and makes recommendations to the Department of Revenue for issuing necessary Notification. The Ministry of Finance (Department of Revenue) have further stated that the Department is alive to the problem of generation and accumulation of scrap in the units operating in the KAFTZ and a Notification is under issue in respect of waste paper, cloth cuttings and waste packing material.

In order to save the KAFTZ units from undue hardship on account of blocking of financial resources etc., the Committee recommend that Government should draw up a time-bound programme expeditiously for clearance of the applications pending for disposal of scrap and waste of units in the Zone and lay down guidelines for disposal of scrap/waste generated in future, within a specified time. The Committee may also be informed of the progress made in this regard.

2.23 A demand has been made that the Central Government should frame and implement a separate Act to govern the Free Trade Zones in the country as per practice all over the world. The Ministry of Commerce have informed the Committee that the Bill has been drafted and is in advanced stage of consideration. The Committee also note that the need of such an Act was also recommended by the Kaul Committee in 1978 and by the Tandon Committee in 1981.

At present, there are two Free Trade Zones in India-one at Kandla and the other at Santacruz, Bombay. The Government propose to establish four more Free Trade Zones at Cochin, Madras, NOIDA (UP), and Falta in West Bengal.

The Committee feel that matters concerning export promotion and production require quick decisions. The authorities administrating Free Trade Zones should have an autonomous status enabling them to function independently and take decisions promptly at their level and for that they should derive their powers from the statute. The Committee recommend that the proposed Bill should be finalised by Government expeditiously and brought before Parliament without any delay.

2.24 In regard to withdrawal of powers of the Collector of the customs from the Development Commissioner, Kandla Free Trade Zone, the Committee note the position stated by the Ministry of Finance (Department of Revenue) that the Development Commissioner acting as Collector of Customs does not have necessary background for taking decisions on custom matters. Since the present arrangement of having a Development Commissioner without any background of custom laws was fraught with serious revenue risk, the Department decided to withdraw the power of Collector given to the Development Commissioner.

2.25 It has been pointed out to the Committee that about 90% of the exports from Kandla Free Trade Zone are to the Rupee Payment Area countries for which import of raw materials is being made from the convertible

currency area. This is neither a healhy development nor can it earn foreign exchange. No efforts have been made to diversify the exports to the convertible currency countries. In this connection, the Committee note from the export figures furnished by the Ministry of Commerce in respect of exports from KAFTZ which support the petitioners' contention.

The Committee feel that in view of the present economic conditions, every effort should be made to promote exports to all countries including the Rupee Payment Area countries. However, in order to diversify exports, the Government should give preference to those entrepreniers who would like to establish their units for exports production to the convertible currency area countries.

2.26 The Committee are informed that statistics regarding import of raw-materials in finished/semifinished forms, year-wise and country-wise are not maintained by KAFTZ Administration. The Committee recommend that these statistics if not maintained so far, should be maintained.

2.27 In regard to enforcement of labour laws, the Ministry of Commerce have stated that all efforts are being made to ensure implementation of labour laws in KAFTZ. The State Government is being advised to strengthen the labour enforcement machinery. The representative of the Department of Labour of the Government of Gujarat also informed the Committee that necessary steps were being taken to prosecute the industries where such labour laws were flouted. The Committee trust that adequate steps will be taken by the Government to ensure implementation of labour laws and setting up the permanent machinery therefore in KAFTZ as the implementation of labour laws would be in the larger interest of the Zone.

2.28 It has been pointed out to the Committee that most of workers are not covered under the Minimum Wages Act. They only get meagre wages of Rs. 4/- to Rs. 10/- per day. The Committee consider that such low wages are not adequate for a poor worker to live on a subsistence level.

In order that a worker gets proper wages for efficient working, the Committee urge the Government that the Minimum Wages Act should at least be made applicable to all industries in Kandla Free Trade Zone.

NEW DELHI ;
10th September, 1984
Bhadra 19, 1906 (Saka).

K. P. TEWARI
Chairman,
Committee on Petitions.

APPENDIX I

(*See* para 2.2 of Report)

[Representation regarding working and development of the Kandla Free Trade Zone].

From :

The Chairman,
Petition Committee of Parliament,
Parliament House,
NEW DELHI.

N.P. Metha,
T.H.X.-30,
Adipur—370 205.
Kachchh-Gujarat.

Respected Sir,

The humble petition of the residents of Kutch District of Gujarat State, where the Kandla Free Trade Zone is situated.

SHEWETH

Kandla Free Trade Zone was declared open by the late Shri Lal Bahadur Shastri, the then Prime Minister of India, on the 7th March, 1965, with triple objectives *viz.* (1) to earn foreign exchange for the country, (2) to provide export traffic to Kandla Port, which had till then only one way traffic only import cargo and (3) to develop employment opportunities in backward District of Kutch. Great expectations were kept from the KAFTZ from the beginning and it was envisaged that there will be 200 industries by the end of fifth year, will earn sizable foreign exchange for the Nation, will give enough export cargo to Kandla Port and will create considerable employment potential for people living below the poverty line in nearby regions.

But due to lack of enough interest amongst top leadership of the country, and due to lop-sided handling of Kandla Free Trade Zone affairs by the Central Govt. and also very loose and lifeless administration of the Zone and that too purely by periodical notifications issued as per whims and wills of individuals, in absence of the Statute passed by the Parliament, the KAFTZ had miserably failed to fulfil any of the objectives fixed for it by the Nation, even till day.

The Zone had only tardy growth during the first decade and the progres was meagre. This was due to bad handling of Zone Affairs from Delh creating many procedural entanglements and continued infrastrural deficien cies and solving none of the acute problems of KAFTZ.

Only from 1975, there was some semblance of development of KAFTZ In 1978, Mr. Mohan Dharia, the then Commeree Minister visited the zon and had seen the situation on the spot. As a result, two committees unde the Chairmanship of Mr. P.K. Kaul, the then Secretary of Commerce wer appointed, one for KAFTZ and the other for Kandla Port. The recommendations of these committees were very pragmatic and many procedural difficulties were mitigated. Five Year Tax Holiday was one of the recommendations of Kaul Committee on KAFTZ, but many of the recommendations are yet to be accepted and implemented. After the Tax Holiday for 5 years had been declared, the Zone has developed faster. There are about 80 industries, now operating in KAFTZ and 100 more are on approved list. The developed area of the Zone is fully utilised and steps are being taken to expand Kandla Free Trade Zone to the adjacent area.

But we are grieved on two major grounds. 1. The Government of India seems to be neither serious for the healthy development of the KAFTZ, nor well informed about the situation prevailing in the KAFTZ and 2. the so called development of KAFTZ till now, is neither healthy nor of permanent nature.

We are much grieved also because the KAFTZ has failed to fulfil upto expectation any of the three objects assigned to it till now.

The recent development of Zone is only because of the lucrative concessions given as per recommendations of the Kaul Committee for KAFTZ, but majority of the exports, as much as 90% is to Rupee Payment Areas only for which imports are from convertible Currency areas. This is neither healthy development nor it earns foreign exchange, which was one of the prime objects, behind setting up of the KAFTZ. On the contarary, KAFTZ is instrumental in lavish squandering of precious Convertible Currencies in import of non-essential raw materials, we regret.

The Zone had failed to provide any traffic, either import or export to Kandla Port till now, except some container traffic only to USSR, since last few months. Instead of developing as FTZ of Kandla, it had sprouted out as FTZ of Bombay only as the entire import export traffic of KAFTZ is routed through Bombay Port and on top of it, Government of India had to pay

handsome Transport Subsidy to KAFTZ Units, least their products may become costly in international markets, in competition with similar products from other countries.

The Zone is providing employment to about 7,000 people now. But due to large scale imports of semi finished and finished goods in semi-knocked down and completely knocked conditions by many units of the Zone, we regret, the employment opportunities for the local people, as envisaged as one of the three major objectives after setting up the Zone at Kandla, had considerably decreased. On top, a few of the units, permitted in the Zone, do not provide enough employment opportunities to the local people also. Further most of the KAFTZ units have scant regards for the Labour Laws of the land. There are blatant and open defiances of these welfare laws, day out and day in, in KAFTZ units. Child labour, contractual labour and many other aspects of breach of labour laws are day light happenings in KAFTZ, but the Labour Enforcement machinery of Gujarat State, seems to be conspicuously ignorant of this fact.

To add ills to illfated KAFTZ, the Government of India had blundered in amalagamating the Posts of the Development Commissioner and Collector of Customs for KAFTZ in one individual. By this action, the Government of India had created such difficult situation that the Collector of Customs in KAFTZ, is also an Officer under Ministry of Commerce, instead of Ministry of Finance. Hence, he went out of the control of the Central Board of Excise and Customs and unfortunately the post of the Collector of Customs in KAFTZ, has become subordinate to that of the Development Commissioner of the Zone. As if this is not enough, the Administration of the zone and the customs had been mixed up beyond recognition, so much so that a few clerks of the Administration has been given promotion as Preventive Officers of the Customs and few more has been sent on deputation from Administration to the Customs, Many of them are serving in KAFTZ, either in Administration on customs, since more than 5 years and few since the Zone was inaugurated in 1965 also. Hence, in Kandla Free Trade Zone, the Administration and the Customs are now working hands in glove with each other, instead of working as checks and counter checks over each other. This strange situation had given ample scope for the irregularities, illegal activities and corruption in both wings of KAFTZ and now these ills have heyday in KAFTZ, we regret.

Hence, we the residents of Kutch Disirict of Gujarat State beg to submit few remedies, if implemented promptly and thoroughly, will help to a great extent, KAFTZ to develop on sound and healthy lines, so that it can fulfil all

the major objectives initially assigned to it in wider National interests and which will eradicate all the ills, which had developed at Kandla Free Trade Zone during all these years.

Accordingly, we beg to submit the highest forum of the Nation to implement the following steps :

(1) The Government of India should frame and implement a separate Act to govern Free Trade Zones in the country as per practice all over the world. KAFTZ is perhaps the only all purpose zone in the world, which has no pivotal support of a full-fledged Statute. Without the support of a Statute, many of the procedural simplifications and financial incentives seem to be of quite temporary nature and effect. The Zone is managed by Notifications only, which are issued on whims and wills of individuals, mostly of Joint Secretaries or Under Secretaries only. Ordinarily, for long term investment plans, incentives and facilities should be of permanent and steady nature and type. Hence, we demand that immediate steps should be taken to bring forth an Act of Parliament for Free Trade Zones in the country.

(2) All the recommendations of Kaul Committee and also of the recent Task Force, in respect of KAFTZ should be implemented forthwith for the further sound and healthy development of the Kandla Free Trade Zone. Few of these recommendations had been implemented by now but such piecemeal implementation will not go far and will not help for all out and permanent development of the KAFTZ, on sound and healthy basis. These recommendations include better infrastructural facilities such as better and speedier housing facilities, better and upto-date telecommunications and transport facilities including air, rail and sea transport, both for men and materials. Only one missing point is about shuttle Passenger Train services between Bhuj-Anjar-Gandhidham and KAFTZ and Kandla on one hand and Samkhiali-Bhachau-Gandhidham and KAFTZ on the other hand, both on Metre-gauge line, for workers of the Zone, which should be started forthwith with suitable timings. The recommendations include, also, the provision for uninterrupted supply of water and power to the zone units. In short, we demand that all the recommendations of Kaul Committee and the Task Force in regards to Kandla Free Trade Zone which are yet to be implemented, should be implemented forthwith and without any further delay.

The said infrastructural facilities which are to be implemented now should be modern and up-to-date, we beg. Such as speedier trains between Gandhidham and Bombay and Gandhidham and Planpur, with also A.C. coach for Bombay on Broad gauge and A.C./First Class coach for Delhi on Metre Gauge, Air Service linking Kandla with Bombay and Delhi, better telecommunications and Postal Services, with efficient and modern Telephone Exchanges, better and up-to-date telex facilities etc.

(3) There should be real one-window service available to the entrepreneurs from the Zone Administration for getting power, water, telephone/telex connections and if possible financial assistance from the State Financial agencies.

(4) Suitable quotas from All India Pool for various items of Export, should be earmarked for Zone units also, on year to year basis.

(5) Labour laws of the State and the country should be strictly enforced in every zone unit and enforcing machinery should be created on the site itself in KAFTZ.

(6) To improve the administration of KAFTZ, we beg to demand that the post and workings of Administration and Customs should be separated properly and earmarked clearly to enforce laws of the land and also to provide honest administration in both wings of KAFTZ. We further beg to demand that all rules and practices regarding transfers and deputations of Government Officers and employees should be followed and carried out strictly, to ensure honest and efficient administration of the KAFTZ. We also beg to demand that employees promoted from Administration to Customs and *vice versa* should be sent back to their parent departments and proper personnels from respective departments should only be posted in respective Departments.

One unhappy development alongwith the growth of the Zone in the last four year period has been wide spread corruption and personal aggrandisement by a few persons in the realm of affairs. Encouraged by the unholy behaviour of TWO OR THREE OFFICER (SENIOR) the Zone Administration has become a beehive of malpractices and corruption.

In the end, we beg to demand also that indepth inquiry should be ordered into the affairs of KAFTZ, by some top ranking team of Officers of CBI, Enforcement Directorate, Revenue Intelligence and Income Tax Department in which all instances of mis-use of powers, malpractices, maladministration

and suspected corruptions by the Development Commissioner, the Administrative Officer, and other employees as well as industrialists, should be covered.

We beg to remain,
Loyal Citizens of India.

Sd/-(N.P. METHA)
Ex-President, Gandhidham
Municipality & Journalist.

Sd/-(C.S. METHA)
Ex. Hon. Secretary, Gandhidham.
Chamber of Commerce & Industry

Sd/-(A.R. PATANIA)
Ex-President, Gandhidham,
Municipality.

Sd/-(J.B. Bhanushali)
Ex. President, Gandhidham
Municipality.

Sd/-(Natwarlal C. Agrawal)
Sd/-(Suresh Gupta)
District Secretary,
Gujarat Bank Workers Union.

Sd/-(Dr. Premji R. Patel)
Sd/-(Jagdish Pandya)
Journalist.

Sd/-
(Parmanand Giaychandani)
Dist. Secretary, S.B.I. &
Associate Banks Employees
Union, GIM.

Countersigned by ;

Mahipatray M. Metha, M.P.

APPENDIX II

(*See* para 2.3 of the Report)

[Factual noted dated the 13th September, 1983 of the Ministry of Commerce (Department of Commerce) on the representation re-working and development of Kandla Free Trade Zone.]

No. 9/12/83-FTZ

Government of India Ministry of Commerce (Department of Commerce)

New Delhi, the 13th September, 1983.

OFFICE MEMORANDUM

Subject : Representation regarding working and development of Kandla Free Trade Zone.

The undersigned is directed to refer to Lok Sabha Secretariat U.O. No. 53/CI/83/R-182 dated the 7th June, 1983 and to say that in continuation of this office U.O. No. 9/12/83-FTZ dated 9.8.1983, point-wise information on the various issues mentioned in the representation by Shri N.P. Mehta and others is furnished below :—

(i) *Introductory remarks* :

The observation made in the representation about the Government lacking interest in the development of KAFTZ and loose and lifeless administration of the zone are not based on facts. While evaluating the performance of KAFTZ, the initial teething problems which an enterprise of this nature involves have to be borne in view. While it is true that the Zone had made a slow start, the momentum gained around 1979 onwards is noteworthy. The position as it stands today is that besides having total exports of Rs. 320 crores since inception, and Rs. 142 crores in the year 1982-83 the zone provides employment to more than 7000 workers. There has been a massive investment by the Government in setting up common facilities and infrastructure. A regular container service has already been started between Kandla and Russia Ports. Efforts are also being made to attract regular vessels going

to other Western countries. Of course there is need to improve services like telecommunication, railways etc. These and many other similar problems are engaging the serious attention of the Central Government and the State Government and action is being taken to improve the situation.

(ii) *Five years tax holiday and recommendations of Kaul Committee*

The author of the petition has created an erroneous impression that 5 years tax holiday as the sole factor contributing to the sharp boost in the activities of the Zone. The tax holiday was announced for fiscal year 1981-82. The activities in the Zone had picked up earlier once initial teething problems were overcome. Today there are as many as 87 working units apart from a hundred and odd units which have been issued letters of approval and which are in various stagess of implementation. Most of the recommendations of the Kaul Committee have been accepted and implemented by the Government.

(iii) Exports to USSR

It is a fact that about 90% of the total export from the Zone are made to USSR. The need for greater diversification of markets for Zone products has been accepted by the Government and necessary steps are being taken in this direction. This include export promotion drives in General Currency Area countries for diversification. The expanding bilateral trade with USSR subserve national interest in as much as Rupee Credits help the country to import its essential requirements, petroleum products, fertilizers etc. which if imported from other areas would cost a heavy drain on the country's foreign exchange reserves.

(iv) Development of Kandla Port

There has been significant development of liner facilities and today Russian vessels come regularly to Kandla for unloading and picking up cargo. Cargo traffic for destinations other than Russian ports is marginal as it is not economical for liners to call at Kandla Port. Naturally, such vessels have to operate via Bombay, the next nearest sea port. Government is examining ways and means for attracting smaller liner vessels to touch Kandla Port for picking up cargo. It may be mentioned that earlier no liner facilities of this type were available and it goes to the credit of the Zone that this progress has been recorded.

(v) *Import of CKD/SKD goods and breach of labour laws*

It is the considered view that trading activities should not be totally barred in a free trade zone. Free Trade Zones in other parts of the world enjoy this facility. The logic is that besides earning foreign exchange, such activities strengthen the marketing tie ups of the units during the gestation period and enable them to stabilise.

As regards the alleged violation of labour laws by units in the Zone, it may be mentioned that the State Government has a well established machinery to ensure enforcement of various factory laws/labour laws in the area. The workers are free to form labour unions and enter into peaceful negotiations with the employers for bettement of working conditions, wage structure etc. Any case of breach of labour/welfare laws can be brought before the appropriate authority for adjudication/reconciliation. In the larger interests of units in the Zone, the Zone area has been declared as a public utility service to serve as a check against wild cat strikes.

(vi) *Amalgamation of the post of Development Commissioner and Collector of Customs, KAFTZ.*

The decision to vest Development Commissioner, KAFTZ, with powers of Collector of Customs was taken after considered deliberations. In normal course Kandla comes under the jurisdiction of Collector of Customs, Ahmedabad. If DC was not invested with the powers of Collector of Customs, he would have to perforce refer all decisions to Collector of Customs, Ahmedabad thereby leading to wastage of valuable time which is hardly conducive to the quick disposal of work in a free trade zone. Moreover, in FTZ, development functions go hand in hand with Customs regulatory functions. Separation of these two powers would be detrimental to the larger interests of the Zone. The office of Development Commissioner is held by a very senior officer of the IAS cadre and he is assisted by an Assistant Collector (Customs) and supporting staff. It is factually incorrect to say that custom wing and ministerial wing at the preventive officer level are not distinct. They are distinct and are separate administrative entities. At present the cadre of Preventive Officer Grade-I has a sanctioned strength of 14 posts and cadre of Preventive Officer Grade-II had 7 posts. According to notified recruitment rules in force, 33 and 1/3rd percentage of the total strength of Preventive Officer Grade-I is to be manned by departmental promotees who fulfil the requisite eligibility conditions. If any departmental promotee is found guilty on grounds of misconduct, corruption etc. he is liable for nomal disciplinary action under rules. No official is immune to disciplinary procedures.

(*vii*) *Separate Act for Free Trade Zone*

Government is already considering bringing forward a comprehensive legislation for administration and control of free trade zones in the country. Framing of this legislation is in an advanced stage. The Tandon Committee has also recommended for the constitution of an Authority which will encompass all the aspects relating to the functioning of free trade zones in the country.

(*viii*) *Infra-structural facilities—recommendations of Kaul Committee*

Most of the recommendations of Kaul Committee have already been implemented. In the 8th meeting of the KAFTZ Authority held in Kandla on 18.7. 1983, aspects relating to improvement of infrastructural facilities were considered. The proposal for a shuttle train between Bhuj-Adipur-Gandhidham-KAFTZ-Ghamkali-Gandhidham-KAFTZ was not found operationally feasible by the Railways. With effect from 20.6.1983 restoration of direct air services from Bombay to Kandla has been done by 'Vayudoot'. Efforts are under way for improvement of telecommunication and transport facilities.

(*ix*) *One-window service*

The KAFTZ Board functions as a one-window clearance for evaluation and sanctioning of projects. Centralisation of other clearances needs study and concurrence of concerned authorities.

(*x*) *Export quota for KAFTZ units*

Government will examine the suggestion. At the moment it is not possible for this Ministry to fix quotas for KAFTZ units on a year to year basis.

(*xi*) *Labour laws*

All efforts are made to ensure implementation of Labour laws in KAFTZ. The State Government will be advised to adequately strengthen labour laws enforcement machinery as this will be in the larger interests of the zone for ensuring industrial peace.

(*xii*) *Improvements in KAFTZ Administration*

As already mentioned, the ministerial wing is administratively separate from the Customs wing. Rules of deputation are strictly being followed. Reversion of the Minsterial staff already promoted as Preventive Officers (in

accordance with the provisions of the notified rules) is legally not possible nor administratively desirable. Officers against whom specific charges of misconduct are proved are being proceeded against departmentally. There is no need for setting up a high powered committee to investigate the working of KAFTZ. The CBI has already conducted an investigation into complaints of the Administrative Officer having amassed wealth through corrupt practices. The CBI's report has been received and suitable action is being initiated. It may be mentioned here that work relating to allotment of sheds, plots and allocation of cement has been taken away from the administrative Officer and is being directly dealt with by the Development Commissioner. Other complaints whenever received are prompty looked into.

2. This issues with the approval of Additional Secretary, Shri Anand Sarup.

Sd/-
(R.H. KHWAJA)
Under Secretary to the Government of India.

To

Lok Sabha Secretariat
New Delhi.

APPENDIXIII

(*See* para 2.4. of the Report)

[Study Notes of the tour of Study Group of the Committee on Petitions on its visit to Kandla Free Trade Zone, Gandhidham, in July, 1984 in connection with the representation regarding working and development of Kandla Free Trade Zone.]

I. Gandidham

(*a*) *Informal Discussion with petitioners Shri N. P. Mehta and others on Thursday, the 12th July, 1984.*

2.1 The Study Group held informal discussion with Dr. Mahipatray M. Metha, M P. (Kutch) and the petitioners Shri N. P. Metha and others. At the outset, the petitioners welcomed the members of the Committee and expressed the hope that the visit of the Committee would help the speedier and healthier development of the Kandla Free Trade Zone.

Explaining the background of the establishment of Kandla Port and Kandla Free Trade Zone, Dr. Mehta submitted that after Independence, the Port of Karachi went to Pakistan and North West India was deprived of this sea out-let. In order to ease the situation, it was considered essential to develop another major port on the West coast of India between Karachi and Bombay. Thus the Port of Kandla was established in 1955. The Port of Kandla was an excellent natural and well-protected port. It had hinterland of 10 lakh spuare kilometres which included North Gujarat, Rajasthan, Haryana, Punjab, Delhi, Himachal Pradesh, Uttar Pradesh, Jammu and Kashmir and parts of Madhya Pradesh.

He further stated that Kandla Port was planned on modern lines to handle different types of cargo.

2.2 There after, he made the following points:

(i) Kandla Free Trade Zone was developed to provide cargo traffic, either import or export to Kandla Port. But practically, KAFTZ was serving Bombay Port and the entire import/export of cargo traffic was being done through Bombay;

(ii) Only 50% of the industries in the KAFTZ were working effectively. There was acute shortage of water in the area. No big industry had been set up in the area. Actual production was less than the targets.

(iii) Due to lack of interest amongst the Ministries concerned and due to lopsided handling of Zone affairs by the Central Government, and lack of infrastructural facilities, the KAFTZ had miserably failed to fulfil any of the objectives fixed for it.

(iv) After a number of representations made to the Central Government and a lot of persuation, to Committees were appointed—one for KAFTZ and the other for Kandla Port. These Committees made a number of recommendations for the development of KAFTZ, some of these recommendations were still to be implemented. However, after implementation of one of the recommendations of the Kaul Commttee for five-year tax holiday, a number of units had come up.

(v) Five Ministries were represented on the KAFTZ Board. But Ministries were not taking adequate interest in the affairs of KAFTZ and their representatives were not attending the meetings regularly.

2.3. During the informal discussions, Shri N.P. Mehta and other petitioners made the following points:—

(1) (i) Inspite of the recommendations of the Kaul Committee and the Task Force, the Government of India, has yet to introduce an Act, in Parliament, to control the activities of Kandla Free Trade Zone and to create an autonomous Free Trade Zones Authority. It still continues to operate and control KAFTZ merely through an Under Secretary in the Ministry of Commerce, who holds charges of several other affairs, along with the affairs of KAFTZ. The KAFTZ is ruled and managed through notifications, issued from time to time while many of the Zones in the world are either autonomous or looked after by much higher authority. For examples, IPZ in Sri Lanka is directly controlled by the President. In effect, unfortunately, the affairs of the KAFTZ are controlled by a Section Officer in the Ministry of Commerce for the last more than 10 years, without change or transfer. This clearly shows the total apathy and neglet on part of the Government of India.

(ii) The KAFTZ Authority meetings are not held regularly as decided, i.e. twice a year. Since this is the Policy formulating body, the decisions of the Authority must be final and should be implemented within a prescribed time limit. Member Customs hardly attends the meetings of KAFTZ Board and KAFTZ Authority. He is represented by a Director in the meetings.

(iii) The development of the KAFTZ has not been of a permanent nature, as it is predominantly dependent on USSR market. Over dependence on the market is neither healthy nor desirable and no efforts have been made to diversify the exports from KAFTZ.

(2) The Government of India has yet to accept many of the vital recommendations of the Kaul Committee (1978) and the Tandons, Committee (1982). Of course, few of the recommendations, are accepted and implemented by the Government, but such piecemeal implementation will not help permanent devlopment of KAFTZ. As recommended by the Tandon Committee, any flourishing Free Trade Zone has three basic components (a) infrastructure, (b) incentives, and (c) administrative-support. But in KAFTZ, all the three components are missing.

(3) *Infrastructural facilities*

(i) Telecommunication facilities proposed in the Kaul Committee Report instead of showing improvement has further deteriorated. Neither telex nor telephone services are functioning properly. 'No delay' services to Ahmedabad, Bombay and Delhi is merely for name sake and does not function most of the time. Even local telephone services had deteriorated further after conversion of KAFTZ telephone exchange into automatic exchange from manual. Priority in giving telephone connections to Zone units, are not strictly adhered to by the Telecommunication Department.

(ii) The State Government as yet to make adequate arrangements for uninterrupted supply of water and pwoer. On the countrary the interruptions are most frequent in recent days. If uninterrupted water supply is to be assured to KAFTZ, it is imperative for the State Government to sanction the plans and

commence the work of laying pipe lines for water supply to Kandla complex from Machhu/II Dam, near Morvi in Saurashtra as it is the only permanent solution of acute water problem of this region. The State Government has sanctioned reconstruction of Machhu/II Dam. Simultaneously the laying of water pipe lines for Kandla complex be given green signal, for which special provisions had been made, to lay these pipe lines across little Rann of Kutch on Surajbri Bridge.

(iii) If uninterrupted power supply is to be assured it is also imperative for the State Government to ask the Gujarat Electricity Board to install a captive power station exclusively for KAFTZ as the power supply position in entire Gujarat State has become most unreliable and unstable in recent months. Even electrical connections are delayed by GEB which should be given on priority basis.

(iv) Nowhere in the world, the train services take as many as 22 hours to cover a distance of merely 740 kms. but it is a fact in the case of this area, where Saurasthra Express train takes 22 hours to cover 740 kms. distance between Bombay and Gandhidham. The time factor for journey to Delhi is even worse. The Railway authorities are avoiding to start super fast trains, without any apparent reasons so much so that even reservation quotas are being denied to this region on super fast trains originating from either Ahmedabad or Bombay for long distance journeys across the country.

Railways are the cheapest mode of transport for workers. In the absence of any such facility most of the entrepreneurs of KAFTZ have to keep big fleet of buses to bring and leave workers to long distances. On the other hand there is a Railway line in the Zone for maintenance of which KAFTZ administration is paying handsome amount per year. Shuttle passenger train services can be started forthwith with suitable timings, between KAFTZ-Gandhidham, Anjar and Bhuj and Kandla-KAFTZ Gandhidham, Bhachau and Samakhyali, both on metre gauge.

(v) Air Service linking Kandla with Bombay is provided but the timings are most unsuitable. While air service linking Delhi

is still awaited. This can be achieved by linking Kandla to Ahmedabad by air so that onward connection could be got from Ahmedabad to Delhi. We demand all the up-to-date infrastructural facilities, be praeided as recommended both by Kaul Committee and the Tandon Committee.

(4) *Incentives and facilities*

(i) On incentive side also the incentives offered are totally poor and inadequate, looking to the geographical disadvantages and backwardness of the region. Even when Tax Holiday was offered, the order units were kept out of its purview, which is most unfortunate. Those who have toiled in initial stage when there were no facilities and the atmosphere was also hostile to start any industrial venture in this region, have been thus deprived of their legitimate right. The tax holiday provisions should also be allowed to the units which had commenced their activities prior to declaration of this vital incentive.

(ii) Home Market support to allow sale of 25% of production in DTA had deen made ineffective, by attaching condition of valid import licence. Unfortunately, most of the items manufactured in Kandla Free Trade Zone are banned items in DTA for which no import licences are issued at all. 25% Home Market support should be made free without any condition only on payment of import duty.

(iii) The scheme of transport subsidy has been introduced as a measure to off set the looses caused as a result of non-availability of adequate shipping facilities at Kandla Port. Hence, till such time these facilities are available in Kandla Port, the transport subsidy scheme must be continued on a regular basis instead of the present practice of getting sanction of the Government on an year to year basis.

(iv) The clearance of sub-standard production, samples, scraps and by-products are another snag in smooth working of the KAFTZ units. The clearance of samples, substandard goods etc. should be brought out the perview of the 25% to be cleared, i.e. the 25% allowed clearance should be exclusively

the manufactured product. This was the provision prior to June, 1983.

(v) In case of sick uniis or units which failed to get export orders for, say two or three years, continuously, should be allowed to remove Capital Goods after payment of Import Duty, on depreciated value. This will help in easing burden on Banks and other Financial Institutes, whose money is blocked in many such Units.

(iv) The value of the packing materials are included in the value of the imported raw materials. But KAFTZ Units are forced to pay Import Duty on packing material, when they disposed them off in DTA, while in Advance Licencing Scheme and 100% Export Oriented Units, it can be disposed off without payment of any such duty. The KAFTZ Units should also be allowed same and similar incentive.

(vii) Added Value Critterion should be counted on Import Cost and not on Export Value, as counted in KAFTZ. On the contrary, in Advance-Licencing Scheme and 100% Export Oriented Units, Added Value is counted on Import Cost. Same and similar mode of counting should be applied to KAFTZ Units also.

(viii) Tax holiday for merely 5 years is also not enough as suggested by the Tandon Committee in its Report of 1982. It should be extended for a period of 10 years and after completion of 10 years it should be allowed on a case to case basis, on the basis of export performance. The old working units in the Zone should also be made eligible for this concession.

(ix) Entrepot trade and stock piling may also be permitted in KAFTZ. In one of its earlier publications, the Government of India had also declared that entrepot trade and stock piling will be permitted in KAFTZ. Such a trade may be permitted to convertible currency area only for some specific items.

(x) Free destruction of the scrap and waste inside the Zone should be permitted. In fact, for want of fixation of percentage certain units are not permitted to destroy their scrap in the Zone. The requirement of fixation of the percentage of scrap in case of destruction should be dispensed with as was prevailing earlier to the issue of Notification No. 77/80. In short, the incentives should also be increased to make KAFTZ more attractive for the entrepreneurs, as suggested by the Kaul Committee in its Report of 1978 and the Tandon Committee in its Report of 1982

(xi) That separating the posts and powers of Development Commissioner and that of Collector of Customs, at this stage, will not be proper step in right direction, when we have also demanded in our petition, 'one window service' in the Zone, to avoid multiplicity of authorities and agencies as suggested in the Report of the Tandon Committee, that' since customs and excise are the king-pin of a Zone Administration, the Zone Administrator must be given all the powers of the Collector of Excise and Collector of Customs in respect of Zone area.

(xii) It is also necessary that the KAFTZ Administrator is strengthened by a team of experts in the field of customs and excise, Expor-Mtarketing, Public Relations and Project Evaluation.

(xiii) Unfortunately, in KAFTZ, the Administration and Customs had been mixed up beyond recognisation so much so that few clerks of the Administration, had been given promotion as Preventive Officers of the Customs and few had been posted on deputation from KAFTZ Administration to KAFTZ Customs. Few of them are serving in KAFTZ, either in Administration or the Customs since many years and few since the zone was inaugurated in 1965 without change or transfer. This had created many ills, both in Administration and Customs Departments of KAFTZ, weakening both wings of the Administration. We feel and demand that the services of KAFTZ and new Zones to be opened, should be made inter-transferable, so that the ills created in KAFTZ Administration and Customs can be cleared off.

(xiv) It is also high time for the Government of India that it should take up task of enacting an Act of Parliament to administer KAFTZ and the other Zones, instead of running them by notifications. The proposed Free Zones Authority should have the Minister of Commerce, as its Chairman.

(xv) The Government of India should start some staff welfare activities for the KAFTZ employees and the factory workers also. The State Government should also be asked to join hands in providing Labour welfare activities which are totally lacking as far as KAFTZ is concerned.

(xvi) The units exporting and making efforts to market in convertible currency countries should be given priority in various services by the Administration and some special benefits/incentives.

(xvii) KAFTZ entrepreneurs should be given some sort of identity cards like the green cards issued to 100% EOU to enable them to get priority in various fields of services.

(5) *Suggestion to improve traffc at Kandla*

(i) Regular liner services be introduced at Kandla. In this respect S.C.I.—Shipping Corporation of India should make the beginning. The liner service in the beginning be on trial basis for say 6 months and then it can be converted in the regular service. But a beginning has to be made. When once liner service has commenced at Kandla, automatically the import and export cargo generated at Free Trade Zone will start flowing from Kandla.

(ii) All the States of Northern India be pressurised to import or export goods through Kandla instead of from Bombay. Kandla is the only port where movement on both the broad-gauge and metre-gauge Railway is possible. The railway lines are laid right up to the jetty. Hence, the movement of railway wagons is very easy. The Gujarat Government should also make the beginning.

(iii) To attract cargo at Kandla, a subsidy in freight charges by way of ocean freight subsidy of 1 to 2% may be introduced

for a period of 5 years on goods exported from Kandla. Similarly, some concession in port charges may be introduced on import cargo. The port charges at Kandla are high and these may be reduced.

(iv) In reply to a question, the petitioner Shri N.P. Mehta informed that the number of Units working in the Zone were 98 ; the number of Units closed in the last 3 years were 24 ; and that all units were running in profit.

He added that every unit had to adhere to what was called added value criteria which was fixed by the KAFTZ Board when applying for setting up the units.

Except one units of stainless steel, all were earning profits."

(b) Informal discussions with the representatives of Gandhidham Chamber of Commerce and Industry, Gandhidham on Thursday, the 12th July, 1984.

2.4 The President, Gandhidham Chamber of Commerce and Industry, Gandhidham welcomed the members of the Committee and expressed his gratitude for having given them an opportunity to put forth their views with regard to the development of Kandla Free Trade Zone.

2.5 He made the following points :—

"(i) We believe the original concept of a Free Trade Zone has undergone sea-change, so that the Zone now functioning at Kendla, could at best, be described as DUTY FREE EXPORT PROCESSING Zone. The first brochure on the Kandla Free Trade Zone brought out by the Directorate of Commercial Publicity in the Ministry of Commerce, Government of India envisaged :

'Imports into the free trade zone intended for re-export as 'Entrepot' trade will not be debarred. Stock-piling of important items of imports for subsequent distribution into the country may also be permitted in special cases.'

In fact, the free trading activity, as envisaged originglly, never became a reality. In contrast to such free trade zones or the export processing zones throughout the world, our zone has been adminis-

tered through official notifications. It is our firm conviction that a separate Act of Parliament in this regard will achieve the following desired results for a continued and lasting development of this and the other zones in the country :—

(a) the Act will end uncertainty about the functioning of the Scheme ;

(b) the Act will inspire greater confidence in investors both within and outside the country ; and

(c) the Act will act as bulwark against the much feared bureaucratic manevourings.

(ii) The one major attraction for any investor to come to a free trade zone, is the promise of ONE WINDOW SERVICE. Yet this attraction is sought to be withdrawn by withdrawal of the powers of the Collector of Customes from the Development Commissioner of the Kandla Free Trade Zone. The resultant hardship to the industrialists in the zone will only act as disincentive to the prospective entrepreneurs.

(iii) There is a tendency to compare the free trade zone operations to those of 100% export units in the DTA or Domestic Tariff Area *vis-a-vis* the facilities and incentives. This has proved fatal to the growth of the free trade zone. If a comparision has to be drawn with regard to the incentives and facilities, it should be between such zones in other countries and our zones. A foreign investor or non-resident Indian has a choice to make investments and unless we match the incentives and facilities available elsewhere, we may fail to attract investment or technology.

(iv) The recommendations of the Kaul Committee and of the Task Force headed by Shri P.L. Tandon, are yet to be implemented in large measure. The implementation of these recommendations is essential, if the Free Trade Zones are to function effectively and generate the desired results for the country's export effort.

(v) Despite the fact that it is more than 2 decades that the free trade zone at Kandla has been functioning, there are no clear guidelines and no speedy procedures to clear and remove wastages, rejections, by-products or substandard goods from the zone. This has resulted

in very great hardship to the units within the zone. Not only these wastes, rejects, by-products and sub-standard goods occupy valuable commercial and industrial space and pose a security hazard, they also tie up considerable financial resources of the units. Even units using 100% indigenous raw materials were not allowed to clear waste/ rejects.

(vi) Infrastructural facilities for sustained industrial growth are a must and could only be provided by the Government. The Kaul Committee has made detailed recommendations for the speedy provision of these facilities. Telecommunications and power here could be safely described as most unreliable and there are instances, when foreign investors have gone back, simply because they could not communicate with their respective principals. Power is no better. Recurrent failures and wide fluctuations in the supply have become the order of the day. We believe the Government should consider permitting generation of captive power for the zone to ensure regular and uninterrupted power supply for the export effort.

(vii) The Government of India, in the Ministry of Transport through the Kandla Development Commissioner had undertaken the development of Gandhidham, the township of Kandla Port, as subsidiary of the project for development of the Major Port, so as to provide facilities for rehabilitation of trade, commercial and industrial interests connected with the working and economy of the Major Port. While inviting applications for lease of plots for various purposes, it was announced by the Government of India that Gandhidham like the Major Port of Kandla will serve a vast hinterland covering an area of 2,75,000 sq. miles.

Kandla Port Trust has during the last 26 years provided (in the first stage) about 3600 plots (excluding plots for port employees) out of which about 3450 plots have been leased out—2550 for residential and 900 for commercial and industrial purposes. Out of 2550 residential plots 810 are partly built upon. Commercial and industrial plots partly built upon are only 100 out of 900. Not a single manufacturing industry has come up. About 35 small units were started some of which are closed down and rest working under various stresses.

Kandla Port has already recovered the cost of development of about Rs. two crores from the plot holders with interest. The private stake and investment in plots alone has increased to more than ten crores of rupees on account of capitalisation of interest lost and other outgoings since the great majority of plots being unbuilt yield no returns. They should be given inalienable right to property.

(viii) Kandla Port achieved second position among the country's ten major ports for the volume of traffic handled during the year ended March, 1984. However, the traffic handled at the Port is overwhelmingly import traffic, resulting in one-way utilisation of the inland transport facilities provided to clear the traffic from the Port. This one-way traffic is gross under utilisation of national resources and a loss to the nation.

The Government should, therefore, devise schemes to attract commercial traffic to this port, so that the national inland transport could be used both ways and the port could really contribute to the prosperity of the nation. In this regard a direct broad-gauge link with the hinterland will prove a boon to the attraction of commercial traffic at this port.

(ix) Water is a perrenial problem here. The Government and private investment in this area may be of the order of Rs. 1000 crores and we fear this investment may be put to jeopardy, if the water resources are not immediately augmented.

The Gujarat Government have already sanctioned the reconstruction of Machhu/II Dam. It may be ensured that the work on the delivery pipelines to Kandla starts simultaneously. Provision has already been made to take this line on the Surajbari road bridge, across the little Rann of Kutch.

(x) There was a need for cash subsidy for KAFTZ units.

(xi) The Post of Development Commissioner was lying vacant. The appointment of a permanent Development Commissioner be made immediately.

(xii) Growth of the Gandhidham town was the responsibility of Kandla Port. It was gradually diverting the responsibility of development

of the town. All development of the area surrounding the Kandla Port should be undertaken by the Port authorities."

Kandla Free Trade Zone

(c) Informal discussions with the representatives of the KAFTZ Industries Association, Gandhidham on Thursday, the 12th July, 1984.

2.6 The President, Kandla Free Trade Zone Industries Association, Gandhidham welcomed the members of the Committee on Petitions and thanked them for undertaking the visit of Kandla Free Trade Zone to study the problems hindering the growth of that Zone.

2.7 He made the following points in a note submitted to the Committee :—

"(i) Kandla Free Trade Zone began its operation in 1964 with the following objectives :—

(a) to boost the country's exports and earn substantial foreign exchange ;

(b) to develop Kutch District which is a backward area ;

(c) to provide employment for the local population ; and

(d) to increase the volume of traffic of Kandla Port.

Although the activities at the Kandla Free Trade Zone started at snail's pace in the beginning, it started showing considerable improvement in the last two years resulting in the exports crossing the Rs. 100 crore mark in 1980-81. It is expected that during the current year, the export figure is likely to touch the Rs. 200 crores mark. Eventhough, looking into the developments in terms of the volume of exports that the zone has developed considerably, we feel that considering the vast potential of a Free Trade Zone, what we have achieved is far from what we can achieve. The Free Trade Zone in any other country boasts of huge foreign investment, whereas no foreign investor in the real sense, has come forward to set up a unit in Kandla Free Trade Zone. Even Indian investment got a spurt only when the Government announced a Tax Holiday for 5 years.

(ii) The incentives offered by the Government for setting up of a unit in Free Trade Zone are neither comparable with those offered by other

export promotion schemes of the Government, nor attractive enough when a comparison is attempted with the incentives offered by the Free Trade Zones in other countries such as, Sri Lanka, Singapore and Taiwan. This clearly is one of the reasons why foreign investors shy away from India. An Indian investor may take the opportunity offered in a Free Trade Zone after a superficial scrutiny and it is a fact that the incentives offered in a Free Trade Zone are not at all attractive even to Indian investors.

(iii) *Issues recommended by Task Force for immediate implementation*

After making an indepth study the Task Force, chaired by Shri P.L. Tandon, submitted its report in September, 1981. We appeal to the Committee that these recommendations should be implemented, in toto, without further delay. Few important ones are :

(a) *Tax Holiday*

The present Tax Holiday policy which was announced belatedy allowing 5 years period as Tax Holiday is hardly adequate on account of the following :

(i) Almost 3 years are accounted as gestation period for a unit before it starts making profit;

(ii) Units in Free Trade Zone normally function partially.

In view of this, the Tax Holiday, should be extended to ten years period which will also bring at par what is available in FTZs located in other countries.

(b) *Domestic Market Support*

The present policy of permitting to sell 25% of production in DTA to a person holding valid import licence does not make efficient room for the units in Free Trade Zone for the reason that they do not get a person holding valid import licence. The following suggestions are made in this regard to provide domestic market support to the units in Free Trade Zone in a realistic way :

(i) DTA sale should be delinked from import licence.

(ii) 25% should be exclusive of sub-standard goods and samples.

(c) *Trading*

In Free Trade Zones located in other countries, the trading is freely permitted. Cairo is a live example in this regard. Trading should also be permitted in KAFTZ so far as the added-value criteria is satisfied and the sale proceeds are received in foregn currencies.

(d) *Legislation with Autonomous Board*

A separate Act has been sought since long back and the need has already been appreciated and recommended by the Kaul Commission as well as by the Task Force. In the absence of such an Act, KAFTZ is :

(i) Without laid down objectives, policies and procedures;

(ii) governed by piece-meal notifications and regulated by annual ITC policy which introduce an element of uncertainty/instability;

(iii) in absence of status, the FTZ is merely another Government scheme wherein certain customs exemption are available rather than being an instrument to earn foreign exchange on a long term basis.

Since KAFTZ is one of the affected, we trust our views before its implementation will be duly considered.

(e) *Essential Service Status For FTZs*

It does not require any need to underline the importance of the continuity in the operation of the units located in the FTZ as they are operating against rigid export commitments. KAFTZ be granted status of an essential service area.

(iv) *Withdrawal of collector of custom powers from the post of Development Commissioner*

In case the powers of Collector of Customs are withdrawn from the post of Development Commissioner, KAFTZ Customs which is here basically for preventive supervision would be under separate administrative control. All along it has been mooted by one and all in unison and recommended by Kaul Committee and Task Force that there should be one window clearence. This

contemplated move will affect the present one stop clearance facility and the units will be subjected to lot of predicaments due to multi-authorities.

In the normal working, there is lot of interaction between Customs and Units, as everything is under preventive supervision. In case the bifurcation contemplated is implemented and two administrative bodies come into existence, working would become extremely difficult entailing considerable delay.

(v) *Market Development Fund allocation to the Zone*

Out of necessity, the Zone exporters have to carry out various market development activities, such as :—

to participate in foreign exhibition;

to undertake planned advertisement campaign for promoting its product and corporate image;

to issue modern catalogues, brochures, leaflets and publicity gifts etc;

to undertake export promotion tours either singly or in a team or delegation;

to invite foreign buyers to visit exporter's works to assess the quality standards, production capacity and delivery schedules etc; and

to study the market trends in design, finish and overall presentation of products.

Atleast to begin with a sum of Rs. 50 lakhs must be allocated annually to this zone with export performance for the current year showing all positive signs of surpassing all preceding years with record margin. The Zone units can in turn receive grants out of this allocation through the Zone Administration, for their individual activities and thus subsides their selling and marketing exependiture to some extent.

(vi) *DTA/CST*

The existing scheme of obtaining supplies from DTA under Letter of Authority and obtaining reimbursement of Central Sales tax is very lengthy/

tedious and complicated. It is suggested that instead of the present procedure of claiming CST reimbusement, the same should be exempted, the way the Gujarat Government have totally exempted the supplies to KAFTZ from the State Sales Tax.

(vii) *Matters related to customs*

(a) *Fixatian of scrap/waste*

Every unit which carries out manufacturing activity is bound to generate scrap/waste which can be cleared/destroyed after its generation rate has been fixed and notified by Ministry of Finance. The process involved is riddled with blockade. KAFTZ administration canducts on the spot experiment which are scrutinised and slashed by concerned technical authority and forwarded to Ministry of Finance where it is subjected to further scrutiny before notifying. Till March, 1984, percentage in respect of only 16 lines of manufacture were notified while majority were kept in abeyance. On Feb. 13th, 1984, there was a big fire in the scrap section of one of the units which threatened the whole zone as there was alcohol stored in the adjoining unit. This finally awakened the notifying people and they issued notification in respect of five more lines after arbitrary reduction in percentages. Since long we have been representing that such decisions should be taken by Development Commissioner in consultation with the technical authority.

(b) *Duty on imported packing material*

Presently as per Ministry's directive, CAFTZ Administration is collecting duty on the used packing material in which imported goods are received when cleared from KAFTZ. This we feel is totally unjustified particularly in light of the Custom Notification No. 184/76 of 2.8.1976, whereby parallel importers of DTA get exemption on disposal of similar used packing material.

This issue has become grave as Units are reluctant to pay the illogical duty and thus such scrap packing materials lie around causing litter and become a fire hazard.

It is gross discrimination against Zone Units and must be removed.

(c) *Customs Notification*

Time and again, we have requested for a general exemption from payment of Customs and excise duties on all goods that are used for produc-

tion or in connection with the production of export goods or for its packging or export promotion. Although the concerned authorities concede the validity of the request, yet the modified notification is not yet issued and the zone units continue to suffer on this account unnecessarily. This Association seeks immediate removal of such anomaly by issuing a general notification exempting all items imported into KAFTZ for the above purpose by deleting the words "specified in the annexure to the notification" in para 1 of Custom Notification 77/80 and deleting the annexure.

(viii) *Deemed Exports*

Projects in India, which are allowed to import goods against free foreign exchange should be permitted to make their purchases from FTZs as this would mean a reduced outflow of foreign exchange. Such projects include purchases under global tender conditions, other FTZ and 100% export oriented units, who are as it is to import their requirement.

(ix) *Infrastructure facilities*

(a) *Telephone* : As the telephone is the nerve of all the business activities, we request that Gandhidham Exchange be immediately shitchedover to automomatic exchage with STD facilities to major cities like Bombay, Delhi, Calcutta and Madras.

(b) *Telex* : Most of the Telex machines installed in the Free Trad Zone are not working since the last six months and many have just unhooked their machines in despair. Communication, which is life line for exporters, is absolutely in shambles. We request that this be immediately attended to.

(c) *Air link to Ahmedabad, Delhi and change of Bombay flight timings* :

Kandla-Bombay flight timings be in the morning hours. As on date, Ahmedabad and Delhi are not air linked to Kandla. This point needs your active consideration.

(d) *Train service* ; At present, there are two train services operating between Gandhidham and Bombay. It is really shocking to know that the distance between Bombay and Ganhidham by rail is only about 800 kms., and these two trains take on an average of 22 hours to cover this distance. In our opinion, the running time of these

two trains can easily be reduced to 14 hours by avoiding unnecessary stoppages and also by reducing the halt timing at major stations, like Ahmedabad.

Eventhough the zone has been linked by metre gauge to Gandhidham, there is no shuttle services operating from the zone to Gandhidham/Anjar/Bachhau from where most of our work forces hail.

In absence of the service, units themselves have to ru . a fleet of buses. On a rough count, Zone units must be cumulatively plying about 50 buses. This point merits your urgent attention since for maintaining the railway lines connecting the Zone, the KAFTZ administration pays substantial sum every year to the Railway authorities.

(e) *Water* : Every year we have drinking water shortage. The situation has been deteriorating from year to year. No action seems to be forthcoming from the authorities so far.

(f) *Power* : Power failure and load fluctuations are very frequent, th is hampering production as well as damaging of equipments. In this connection, there was a proposal to have a captive generation arrangement within the Zone. The delary in the implementation of this is causing alarm. We request the Gujarat Electricity Board to consider this proposal on an emergency basis. In case of a snag, we suggest that a private entrepreneur may be permitted to start a Generation Plant within the Zone, as servicing export unit, for captive (Zone's) consumption only.

(x) *Transport Subsidy* :

Transport Subsidy Scheme effective from 1st July, 1982 be made permanent till such time that Kandla Port starts servicing the KAFTZ Units imports and exports, from and to all foreign destinations.

The Transport Subsidy Scheme rates need to be increased imminently, to provide adequate compensation for increased costs. Since the Government is keen on meeting out differential treatment, we propose that:

(a) The number of slabs be increased to atleast five;

(b) The rates for exports ex-Bombay and ex-Kandla be revised as under :

Slab FOB value per Kg. in Rs.	Exports Ex-Bombay	Exprts Ex-Kandla
0 to 50	6%	3%
51 to 75	5%	2½%
76 to 100	4%	2%
100 to 200	3%	1½%
above 200	2%	1%

Clause (iii) of the present scheme related to the Substantial indigenous material users, be deleted and the above rates be made applicable to all zone units without discrimination.

Units involved in inter-zone sales (ancillary units) be also granted subsidy half of their export (indiraect) slabs."

2.8 In their written Memorandum submitted to the Study Group at Gandhidham on Friday, the 13th July, 1984, the President and the General Secretery of Free Trade Zone Gereral Workers' Union, Gandhidham, have stated as follows :

"We are the only Union functioning in the Kandla Free Trade Zone. We have been trying our best to ensure industrial peace in the Free Trade Zone. However, it is our experience that the Labour Laws of the land are utterly flouted by almost all the industries of the Zone and the exploitation of working force is at the maximum.

No industries of Kandla Free Trade Zone, except a very few, which are engaged in production/manufacture of castr oil, soaps and pharmaceutical items and employing about 500, out of the total work-force of 7,000 workers of the Zone, are covered under the minimum wages Act. Therefore, the workers are highly disillusioned at the payment of meagre amount of Rs. 4,00 to Rs. 10.00 per day at most of the industries. The working force at the Kandla Free Trade Zone are not paid even the Industrial D.A. No other fringe benefits are available to the workers of this Zone.

The agony of the workers of this Zone is that even the State Labour Laws Enforcement Machinery is turning a deaf ear to their plight. The Industries of this Zone are not brought by the state yalour authorities in the fold of the provisions of the Minimum Wages Act, even though in most of the industries here more than the minimum number of the required workers are employed. The provisions of the Factories Act are also not being followed by the industries.

The State Government do not take any cognizance of the repeated requests of this Union for implementation of the provisions contained in the various Industrial Laws.

The wage slips, identity cards, leave cards etc. are not being supplied to the workers. Payment of over time allowance is not made according to the rules. Even, in case of injury/accident while on duty neither injury leave with wages nor any compensation is paid to the workers.

The Free Trade Zone Industries Employers Association with the connivance of the Free Trade Zone Administration has been resorting to terminating illegally the services of workers who take active part in the Union activities. This has resulted in a grave situation that the workers so dismissed/terminated are not even employed in any other industries of Zone. Such victimisation has been creating obstacles in fair functioning of this Union, which in turn adversely affects the Industrial Peace in the Zone. It may be submitted that for the last three years or so the services of about 100 workers have been terminated.

It is also experienced by this Union that the Free Trade Zone Employers' Association step in to block the efforts of any Industry prepared to pay fair wages rise to their workers.

Another malady of the Zone functioning is that Child Labour and Contract Labour is rampant in the industries. No concrete steps are taken by the State Labour Laws Enforcement Machinery to check the employment of Child Labour. Similarly the State Government have utterly failed in controlling or checking the Contract Labour System prevalent in the Zone. Thus the provisions of the Contract Labour (Regulations and Abolition) Act, 1970 are not complied at all.

Another point we would like to bring before this Committee is that the State Labour Laws Enforcement Machinery is not enthusiastic enough to enter into and resolve the disputes, whenever any dispute arises. In case of failure, they are not sincere enough to refer the disputes to Labour Court/Industrial Tribunal etc. for a settlement. This has resulted the disputes remaining unsettled for years together.

Taking into consideration the above, we request you to take appropriate action for the implementation of the Labour Laws of the land mentioned below to avoid recurrence/repetition of such sad incidents as had taken place in the Zone by which two innocent and poor lives were taken away in the most heinous police firing that took place in the Zone last year, for their legitimate demand for fair implementation of the Labour Laws :

(i) all the industries of the Zone should be brought under the Minimum Wages Act;

(ii) the State Government should ensure that the Industrial Laws are not flouted in the Zone.

(iii) the State Government should refer the disputes to Labour Courts/Tribunals etc. wherever such references are required by avoiding delay tactics in doing so;

(iv) the employment of Contract Labour, Child Labour etc. should be strictly prohibited in the Zone;

(v) no industries should be allowed to resort to the tactics of lay offs/retrenchment etc;

(vi) the Police should be restrained from interfering in the matters relating to Industrial Disputes; and

(vii) the orders declaring the Industries in the Kandla Free Trade Zone as Estsential Services should be squashed in the larger interests of the workers and the country."

(d) Informal discussion with the representatives of the Ministry of Commerce, Finance (Department of Revenue), Railways (Railway Board), Shipping and Transport (Shipping Wing), Communications (Post and Telegraphs Board), Kandla Free Trade Zone, Labour,

Electictity and Industry Departments of the State Government of Gujarat and the Chairman, Kandla Port Trust on Friday, the 13th July, 1984.

2.9 The Study Group hold informal discussion with the representatives of the Ministries of Commerce etc. Explaining the background of Free Trade Zones, the representative of the Ministry of Commerce stated that the main objective of a Free Trade Zone was to make merchandise competitive, eliminate over-head costs and to stimulate re-processing industries for exports. As no Customs or Central Excise duty was to be paid and component parts the mechanism of free trade zone resulted in reduction of investment expenditure.

Free Trade Zones were flourishing at various places in various countries, namely, Stockholm, Cothemburing and Hamburg in Europe, New York, New Orleans, Sen Francisco, Los Angeles in USA and at Maxico and Panama in Latin America.

In India, at present two Free Trade Zones were functioning—one at Kandla and the other at Santa Cruz in Bombay. The Government had also decided to set up four more Free Trade Zones in Cochin, Madras, NOIDA (UP) and Flata in West Bengal.

2.10 In a background note about KAFTZ and its working furnished to the Committee, it was stated as follows :

"*Kandla Free Trade Zone*

To promote exports, the Government of India established Kandla Free Trade Zone (KAFTZ) in Kutch district of Gujarat in 1965. KAFTZ is a multiproduct zone for 100% export oriented units. The objectives of starting KAFTZ were as follows :

(i) Industrialisation of the under developed and backward area of Kutch.

(ii) Promoting exports from the country and boosting foreign exchange earnings.

(iii) A fillip being provided to Kandla Port as a substitute for Karachi which went to Pakistan after partition.

(2) At present there are 98 working industrial units in KAFTZ. After 1976 the performance of KAFTZ has shown considerable improvement and a number of units with foreign collaboration from countries like Holland, Canada, USA etc. have been set up. The performance of KAFTZ *vis-a-vis* units working, employment generated and exports are as given below :

Year	*Working Units*	*Employment*	*Exports (Rs. crores)*
1980-81	52	4000	25.51
1981-82	67	6000	70.04
1982-83	83	7000	142.44
1983-84	98	7500	107.46

(3) *Infrastructural facilities*

Kandla Free Trade Zone is situated close to the Port of Kandla, which has facilities for dealing with all types of ships including those carrying containers. It is connected by rail and road with the major industrial towns in the State. Direct air services are available from Kandla to Bombay. The Zone offers developed plots of land for construction of sheds by the entrepreneurs as well as readymade sheds. Tele-communication facilities are available and a new exchange is being developed to further facilities communication.

(4) *Incentives and concessions*

Towards a successful functioning of the units in the Zone and to generate exports, the Government has offered a liberal package of incentives to the units in the Zones. The following incentives and concessions are provided to units working in the Zones :

(i) Streamlined administration : All approvals are given at one single point with 45-60 days and formalities for import and export are expeditiously dealt with.

(ii) No import licence is required for import of capital goods, raw materials consumables, spares tooling or packing materials as import of these items is placed under Open General Licence. Import of second hand/used machinery is subject to the approval by the FTZ Board.

(iii) Exemption from custom duty and additional/countervailing duty on raw materials, components consumables, spares, tooling and packaging material etc. imported into the Zone.

(iv) Exemption ftom Central Excise duty and other levies on products manufactured within the Zone or the goods brought into the FTZ from DTA for use by the industries for the production or in connection with the production of goods for export.

(v) Capital goods and all other inputs supplied to the Zone from the rest of the country are treated as deemed exports and are eligible for for all export benefits.

(vi) Duty free import of capital goods and equipments from preferred sources.

(vii) Special dispensations and relaxations in municipal tax, octroi, sales tax, property tax etc.

(viii) The statement on industrial policy authorises the Government to approve even fully owned foreign companies in 100 percent export oriented venture.

(ix) Corporate tax holiday for an initial period of 5 years with effect from the year 1981-82.

(x) Cash subsidy of 15% of fixed capital subject to a maximum cash grant of Rs. 25 lakhs for units set up after November 1, 1977, has been granted by the State Government of Gujarat.

(xi) Central sales tax paid on purchase from outside the State is reimbursed by the Zone Administration.

(xii) Exemption/from the restrictions under export control order on products manufactured and exported from FTZ. Liberal sanction of foreign exchange including blanket permit for business visits abroad.

(viii) Term finance at very low rates of interest for fixed assets.

(xiv) Packing credit facilities for a period of 180 days without production of firm export orders or letter of credit.

(xv) 25 per cent of total production is also permitted clearance for domestic sale on payment of duty, against valid import licences.

(xvi) Remittance of profits and dividends earned by foreign investors in the Zone is allowed freely after payment of taxes.

(xvii) Priority of release of cement/steel and telephone/telex connections.

(xviii) Transport subsidy equal to 2% of the f.o.b. value of exports ex-Bombay and 1% of f.o.b. value ex-Kandla.

(5) *Investment Policy in the Zone*

Since the units in the Free Trade Zone have 100% export obligation, the normal restrictive policies governing foreign investments for industries meant for domestic production and consumption are not applied. The normal ceiling for foreign investment in a venture is 40%. However, in a very high technology area and export oriented units the industrial policy permits higher foreign investment, Since the Zone is entirely export oriented, we generally do not restrict the extent of foreign equity through the approvals are given on case to case basis on merits.

(6) *Administration*

The overall control of the Zone vests in the KAFTZ Authority. The Authority deals with the overall policy matters relating to the Zone. The KAFTZ Board, which is an inter-Ministerial Board, functioning under the Authority, deals with all the detailed issues concerning the Zone, including the approvals for setting up of units, foreign collaboration, MRTP clearance, issue of letters of approval/intent and industrial licences. The day to day administration of the Zone vests in the Development Commissioner, assisted by a Deputy Development Commissioner and other officers with the supporting staff.

(7) *Steps for improvement of infrastructure*

Initially the progress of the Zone was slow, mainly due to the inadequate infrastructural facilities. A number of steps have been taken to improve the infrastructure, like provision of telex, facilities, extension of the Zone to provide more built up accommodation and streamlining of procedures etc. which have resulted in singnificant increase in quantum of exports during the last 2-3 years. There is still a persistent demand for providing more facilities for achieving a greater rate of industrial growth."

2.11 The following submissions were made before the Committee by the representatives of the Ministries :—

(i) At present, 98 units were functioning in Kandla Free Trade Zone. These were 100% export oriented units and the production in the units was on the basis of export-orders. Some units remained closed for some time for want of orders from foreign buyers. Only one stainless steel unit had closed on account of its old technology.

(ii) Efforts were being made to diversify export to various countries. Enterpreneurs were being persuaded to explore foreign markets for export to Middle East/Arabian countries.

(iii) Most of the recommendations of the Kaul Committee and of the Task Force had been implemented. Some of the remaining recommendations had been taken up with the concerned Ministries for implementation.

(iv) The Director (Customs) of the Ministry of Finance informed the Committee that the Member (Customs) who was represented on the KAFTZ Board was incharge of all major Custom Houses and it was not possible for him to attend all the meetings. Director (Customs) attended the meetings more or less regularly.

(v) There were provisions in the Custom Tariff for disposal of waste and scrap. Percentage for waste/scrap was fixed item-wise and uniformity was observed normally. As the rate of duty on scrap was much low as compared to rate of duty on sound raw material, there was a potential of misuse under the guise of scrap and consequent loss of revenue. Some people tried to adjust sound raw material as scrap. Unfortunately, there was delay in the the disposal of scrap in cases where a number of Ministries were involved requiring consultation in the matter. However, the representative of the Ministry of Finance (Department of Revenue) assured the Committee fot speady disposal of scrap cases.

(vi) The representative of the Ministry of Finance stated that the industries could sell their products in home market provided they import duty on goods which were imported and excise duty on goods which were sold in the home market except in the case of banned items.

(vii) At present, there was a manual Telephone Exchange in Gandhidham. The service available through the manual cxchange handling about

1600 telephones was not satisfactory. Gandhidham was one of the twenty-five placesselected in the country for setting up of automatic Electronic Exchanges. It would be set up in Gandhidham by March, 1985.

(viii) With the installation of Micro-wave Station at Bhuj linked with the Satellite, facilities for STD calls to various parts of the country would be available. The total number of telex connections had already been increased from 50 to 100 against the demand for 200 connections.

(ix) The Ministry of Railways proposed to run fast trains for commuters. Train from Bombay Central to Gandhidham could be speeded up from Ahmedabad onward. Howver, it would reach Gandhidham at midnight which might be inconvenient to the people.

They would also make available rakes provided they were assured of adequate inward goods traffic.

The Ministry of Railways would examine suggestions made in connection with introduction of super fast trains from Gandhidham to Ahmedabad/ Bombay.

(x) The representative of the Gujarat Electricity Board informed the Committee that the present fluctuation and erratic supply of electricity would improve after 15 July, 1984 when the job undertaken by them to cover the wire at various points was completed.

(xi) The representative of the Department of Labour of the State Government of Gujarat stated that the labour laws were being implemented by them and necessary steps were taken to prosecute the industries where such laws were flouted.

(xii) The Chairman, Kandla Port Trust, informed the Committee that Kandla Port was a sixth major port in India. Liner traffic to Kandla Port was subject to cargo business. Minium 500 tonnage was required for small liners. He was attending meetings of Chamber and Commerce and Export Councils in order to attract cargo traffic to and from Kandla Port. It would take time to develop regular traffic from Kandla Port.

Water supply to Kandla Free Trade Zone would improve after Machch Dam, which was washed away a few years back started working.

(xiii) The Chairman, Kandla Port Trust suggested that Vayudoot should operate their services during morning time as was done earlier. The feasibility of introducing air service from Kandla to Ahmedabad might also be examined.

2.12 After the discussion was over, the Chairman on behalf of the Committee thanked the Government officials for the hospitality extended to them and making their stay comfortable and for making other arrangements for their informal discussions during the course of their visit to Kandla Free Trade Zone.

The Committee also placed on record their appreciation to the Officers and staff members of the Kandla Free Trade Zone for the assistance rendered to them during the course of their informal discussion and stay at Gandhidham.

The Chairman also thanked the members of the Committee for their kind cooperation extended by them during the course of informal discussions at Gandhidham and KAFTZ office.

2.13 The Committee dispersed on 13th July, 1984. While departing from Kandla on 14th July, 1984, the members of the Committee, on their way to Bhuj Airport, visited a stall in the KAFTZ where certain selected items produced by the KAFTZ industries were exhibited. They also paid a visit to the following units :—

(i) Milton's Pvt. Ltd., engaged in reodymade garments and bed sets.

(ii) Hindustan Lever Ltd., which is producing items like Shamoo, Toothpaste, Scourer, Toilet soap and synthetic detergent powder.

(iii) Swastika Exports which produces shampo, toothpaste, stethoscopes and kitchen cleaners.

(iv) Hindustan Ciba-Geigy Ltd., engaged in the production of Remictance Capsules, Neocidol Folbex Straps, toothpaste, Cefamezin Vials.

APPENDIX IV

(*See* para 2.5.2 of the Report)

[Statement furnished by the Ministry of Commerce showing action taken on the recommendations of the Kaul Committee Report on Kandla Free Trade Zone.]

Sl. No.	Recommendation	Action taken
9.4	While the arrangements and staffing position at present existing at the Kandla Free Trade Zone for enforcement of customs regulations are, by and large, adequate, the declaration of the Kandla Free Trade Zone as a Customs House would facilitate this work further. The appraisers and examiners, who are in-charge of clearing the import consignments should be under the administrative control of the Development Commissioner, so that he can ensure expeditious clearance of the import consignments. Similarly the second checking of the export consignments at Bombay cannot be altogether avoided, unless the Gujarat Government undertakes to provide containarised truck service between Bombay and Kandla for movement of import and export cargo of the Free Trade Zone. The Committee recommends that the Gujarat Government may consider the possibility of providing such a service as soon as possible (para 4.5 and 4.6).	The Department of Revenue (CBEC) have not accepted the recommendations declaring KAFTZ as a Custom House. The Development Commissioner, KAFTZ had the powers of Collector of Customs. Necessary arrangements were made for completing all the Customs formalities at the Zone itself. Recently the CBEC *vide* notification dated 18th July, 1984 have withdrawn the powers of Collector of Customs from the Development Commissioner, KAFTZ unilaterally. The Central Government have not found it viable to operate containerised truck services between Bombay and Kandla. Ministry of Commerce is giving transport subsidy to the units in KAFTZ to offset the difficulties.

Recommendation	Action taken
9.5 The Committee considered the problem regarding bank guarantee to be executed by the zone units at the time of movement of their imported goocs between Bombay and Kandla. Since many of the units in the Zone are small scale units and their investment in fixed assets is limited, it is difficult for them to give bank guarantee for transhipment of their imported materials, as 80% of their fixed assets are not sufficient to cover the market value of the goods. It is, therefore, necessary to take into account the value of finished goods and raw materials lying in the premises of the Zone units. The Committee feels that the Development Commissioner, Kandla Free Trade Zone may be authorised to recommend waiver of bank guarantce upto 100%, which is the existing limit. The Development Commissioner could also take into account the value of raw materials, finished goods that are likely to be available in the Zone during the period of transit. (para 4.8).	CBBC have issued instructions to waive bank guarantee in respect of particular consignments on the recommendations of the Development Commissioner taking into consideration the nature of the goods.
9.6 Since Kandla Free Trade Zone is a multi-product zone, the items to be brought into the Zone from the Domestic Tariff Area and their inclusion in the Central Excise Exemption Notification cannot be easily predicted. The Committee, therefore, recommends that on the anology of the customs notification a general exemption notification grant-	The matter has been referred to CBBC for amendment of the Central Excise Notification.

Sl. No.	Recommendation	Action taken
	ing exemption from central excise duty on goods brought into the Kandla Free Trade Zone for production of goods or for use by or on behalf of the importer in connection with the production of goods meant for export may be issued. The procedure should also be simplified as outlined in para 3.7 (para 4.10).	
9.7	A regular procedure has been laid down in the Kandla Free Trade Zone for permitting the Zone units to take semi-finished products out of the Zone for processing and bring them back in the Zone. This procedure is working satisfactorily and is laid down in accordance with Rule 56-B of the Central Excise and Salt Act, 1944. Since permission for processing outside the Zone is given in accordance with the laid down procedure, which has been working satisfactorily over a long period, the Committee feels that the Development Commissioner may be authorised to grant this permission without submitting such cases to the KAFTZ Board for approval (para 4.11).	Recommendation has been implemented.
9.8	The Committee noted that the four man team under the Chairmanship of Shri P.K. Kaul, Edditional Secretary, Ministry of Commerce visited the Free Trade Zones in the Far East and in its report made certain recommendations regarding further relaxing the custom procedure at the time of import and export of goods from the Santacruz Electro-	Recommendation has to be implemented by the CBEC.

Recommendation	Action taken
nics Export Processing Zone. The Committee recommends that these relaxations may be extended to the Kandla Free Trade Zone also (para 4.12).	
9.9 Taking into consideration the importance of providing accommodation for persons getting employment in the Free Trade Zone, the Committee feels that the Gujarat Housing Board may be requested to take up construction of houses as per requirement of the units in the Kandla Free Trade Zone and ensure that this is completed within a certain time frame (para 4.13.3).	The Government of Gujarat have agreed to construct 500 houses through Gujarat Housing Board.
9.10 The Committee recommends that the Government of Gujarat may take expeditious action to implement the above proposal. It also recommends to the Union Ministry of Works and Housing that to enable the Gujarat Government to execute the housing programme at Kandla, the HUDCO should be advised to extend the following facilities for Kandla Housing Programme as a special case :—	It has not been found acceptable by the Gujarat Government to grant loans at cheaper rates for house building in the Zone.
(a) The rate of interest for scheme of rental basis should also be charged at lower level (6% to 8%) as prescribed for scheme of hire purchase basis to employees.	
(b) The percentage of down payment should be reduced from 25% to 15%.	
(c) All programmes to be financed on top priority basis.	

Sl. No.	Recommendation	Action taken
9.11	Restoration of air services to Kandla is an important infrastructural facility for the development of the Zone. The Committee, therefore, recommends that this may be taken up by the Ministry of Commerce with the Ministry of Tourism and Civil Aviation (para 4.14.3).	Air services have been restored between Kandla and Bombay through the agency of Vayudoot.
9.12	The Committee also feels that with a view to giving a boost to the export by air from the Kandla Free Trade Zone, Bhuj may be declared as an Air Cargo complex. As and when the air services to Kandla are restored Air Cargo Complex may be started at Kandla also para 4.14.4).	In view of the air services operating between Kandla and Bombay the question of establishing an Air Cargo Complex at Kandla will be considered in consultation with the Government of Gujarat and other concerned agencies.
9.13	Since telex lines already provided are fully occupied, it is necessary that sufficient number of additional lines are provided expeditiously at Gandhidham so that Kandla could be contacted by telex without loss of time (para 4.15.1).	The matter has been taken up with the Ministry of Communications in improving the telex, telephone and other communication facilities. It has to be implemented by the P&T Department.
9.14	In view of the urgent need for development of the Kandla Free Trade Zone and the Kandla Port, the Committee recommends that the telephone authorities may be requested by the Ministry of Commerce to accord highest priority for providing an automatic telephone exchange at Gandhidham as a special case, so that Kandla can be contacted more easily from Delhi and other important places in the country through telephone. The Committee also recommends that the telephone authorities may also be requested	The question of establishing an automatic telephone exchange had been taken up with the Department of Communications. Early establishment of this facility is being pursued by that Department.

	Recommendation	Action taken
	to provide a 'no delay service facility' at Gandhidham telephone exchange for important places like Delhi, Bombay, Ahmedabad etc. (para 4.15.3).	
9.15	The Committee recommends that Gujarat Government may ensure uninterrupted power supply to the units in the Zone and for this purpose issue necessary instructions to the Gujarat Electricity Board (para 4.16.1).	The Government of Gujarat had been advised to ensure uninterrupted power supply to the units in the Zone, the Government of Gujarat and Gujarat Electricity Board have promised that the interruptions will be minimum.
9.16	The Committee recommends that the Ministry of Commerce may take up the matter with the Department of Power and emphasise the importance of the lignite based power generation project from the point of view of development of Kandla Free Trade Zone (para 4.16.2).	Commerce Ministry have been advised that the project has been approved by the Ministry of Energy.
9.17	The procedure of disposal of applications for setting up of units etc. in the Kandla Free Trade Zone by the KAFTZ Board within a period of 90 days from the date of receipt of the application is operating smoothly and satisfactorily and the Committee does not consider it necessary to make changes in it for the present (para 5.1).	Accepted.
9.18	While the constitution of KAFTZ Authority and KAFTZ Board does not call for any change at this stage the Committee feels that the Kandla Free Trade Zone Authority may meet once in every quarter and once in a year, at Kandla (para 5.2).	Accepted.

Sl. No.	Recommendation	Action taken
9.19	The Committee noted that the ITC Policy is subject to review on year to year basis. The Committee felt that the policy with regard to import of capital goods, raw materials etc. under the Open General Licence Scheme in Free Trade Zone should be on permanent footing, so that there is no uncertainty on this score.	The import of raw materials was brought under OGL with effect from 1976-77 and capital goods from 1977-78. Since then there has been no change in the policy with regard to the OGL imports of capital goods and raw materials.
9.20	Taking into consideration the fact that the incidence on Central Sales Tax on purchases made by the units in the Zone from other States may be negligible, the Committee recommends that Central Sales Tax paid by the Zone units may be reimbursed to them from one MDF and for this purpose provisions of the Central Sales Tax Act may be amended, if found necessary (para 6.2.2).	Accepted and implemented.
9.21	The Committee noted that while the effective incidence of tax under the existing provisions of the Income-tax Act for a rate of return on capital investment upto 10% may be negligible in the initial years, for units earning higher rate of return on their investments, the actual incidence of taxation is likely to be significant. The Committee noted that entrepreneurs attach great importance to the tax holiday, which is a concession offered in almost all free trade zones in the world. The Committee further noted that the UNIDO report on free trade zones has also recognised that a tax holiday for a certain number of years is a basic incentive for any free t rade zone.	Accepted and implemented

Recommendation	Action taken
Official teams which have visited foreign countries for attracting investments to our free trade zones have also observed that during the discussions, absence of a definite tax holiday is repeatedly mentioned as an unviable factor. The FICCI report has also strongly recommended that to begin with declaration of a tax holiday for a minimum period of five years is necessary for our free trade zones. The Committee is of the view that the entrepreneurs in Kandla Free Trade Zone should have a distinct advantages as compared to export oriented units in other parts of the country so as to make the Free Trade Zones sufficiently attractive to the concerned investors. Taking into consideration the above mentioned points, the Committee recommends that a scheme of income tax holiday for Indian companies and non-corporate tax payers resident in India may be announced as soon as possible for a period of five years in relation to new units. Any such scheme of tax holiday should be applicable not only to the Free Trade Zones which are in existence at present, *viz.* Kandla and Santacruz but also to those which may be set up in the country hereafter. This tax holiday should not be extended to other export oriented units elsewhere in the country outside the Free Trade Zones. The Committee would, however, like to clarify that the proposed tax holiday should be in replacement of the other tax concessions (such as investment allowance under Section 32A, tax holiday under Section 80J of the Income Tax Act etc.) available to such units under the present law (para 6.3.6).	

Sl. No.	Recommendation	Action taken
9.22	Taking into consideration the fact that the units in the Kandla Free Trade Zone are under 100% export obligation, and that there is need to have different credit policy for the zone units, as distinguished from units in the Domestic Tariff Area who are not under 100% export obligation, the Committee felt that in the case of KAFTZ units if the entire working capital cannot be treated as packing credit, the period of 90 days should be considerably increased and in any case it should not be less than 100 days (6.4.3)).	Accepted and implemented.
9.23	The Committee considered the question of transport subsidy which has been allowed to the Zone units from 1.3.1974. The Committee noted that even though a different method of payment of transport subsidy on the basis of rail freight and actual insurance charges has been introduced w.e.f. 1.4.1978 both the units in the Zone and the Zone Administration would prefer to have the original system of transport subsidy on the basis of percentage of f.o.b. value of export. Taking into consideration these facts, the Committee recommends that transport subsidy may be paid to the units in the Zone on percentage basis rather than according to the admissible rail freight and insurance charges (para 6.5.4).	Accepted and implemented.
9.24	The Committee also examined the demands of the Zone units for restoration of cash assistance. In view of the fact, however, that all the inputs including the supplies from the Domestic Tariff Area are made available to the Zone units	Subsequent to the recommendations made by the Kaul Committee no demand has been received from the Zone for restoration of the cash assistance.

Recommendation	Action taken
in the Free Trade Zone, *prima facie*, does not appear to justified. Since the grant of cash assistace depends upon the element of indirect taxes, not refundable to the entrepreneurs, the Committee felt that the Development Commissioner may try to find out whether the cost of production to the Zone units includes certain portion of indirect taxes not refundable to the entrepreneurs. If there are any such elements in the cost of production to the Zone units, the Development Commissioner may take up the matter again with the Ministry of Commerce (para 6.6.3).	
9.25 The Committee noted that the Government of Gujarat are keenly interested in making the Zone units more competitive in the export market. The Committee recommends that like panchamahals, Bharat and Surindranagar areas in Gujarat State, Kandla Free Trade Zone may also be made eligible for the Central Subsidy available to units in the backward districts (6.7).	Matter is being examined in consultation with the Department of Industrial Development.
9.26 The Committee also examined the request for acceleraeted depreciation. The Committee was informed that legally it would be possible to write off the entire undepreciated value of the machinery in one year if it could be proved that the machoinery has become obsolute due to technological advance. In view of this, there is no need for recommending any system of accelerated depreciation in respects of Kandla Free Trade Zone Units (para 6.8.2).	The Committee has not made any specific recommendation.

Sl. No.	Recommendaion	Action taken
9.27	The Committee noted that in most of the Free Trade Zones, the authorities administering the Free Trade Zone derive their powers from the EPZ statutes, and they enjoy an autonomous status enabling them to function independently and take decisions promptly at their level. In this respect, the Committee particularly noted the case of Sri Lanka zone brought out in the FICCI report where the GCEF, which administers the Zone, has get full powers to amend and modify any rules and regulations as also to exempt the applications of certain acts within the area of its jurisdiction (7.2.2).	The Bill has been drafted and is in advanced stage of consideration.
9.28	The Committee also considered the question regarding introduction of entrepot trade activity at Kandla. In view of the fact that there will be distinct advantages in introducing this activity and that it would be in line with the policy of the Government to link the entrepot trade with the Free Trade Zone activity, the Committee therefore, recommends that free trading at Kandla Free Trade Zone may be permitted to begin with in respect of some selected items so as to increase the tempo of activity in the Zone (para 7.3.3).	While the recommendation was accepted in principle, it has not been possible to implement it in view of the activity not contributing directly to industrial growth and providing employment opportunities. 30% value addition would also not be achieved. Subsequently recommendation was made by the Tandon Committee also and in view of the objectives of establishing the FTZ, Trading activities were nyt considered suitable.
9.29	The Committee examined the demand of home market support to the units in the Kandla Free Trade Zone. The Committee felt that imposition of 100% export obligation for unlimited period of time is not a practical proposition	Not accepted in veiw of the provision granted for 25% of sale of the production into the DTA against valid licences.

Recommendatio	Action taken
and, therefore, there is need to allow the units in the Kandla Free Trade Zone to sell a certain portion of their production in the domestic market. The Committee recommends that in the addition to the supply of goods manufactured in the Zone against valid GCA import licences to the consummers in the DTA the units in the Kandla Free Trade Zone may be allowed to sell in the DTA a part of their production not exceeding 5% of the total production and suitable procedure may be evolved so that the organization of the CCI & E would issue necessary licence for import of the products into the country. The Committee also recommends that the practical difficulty experienced in respect of calculation of customs duty on such supplies may be resolved expediously (para 7.4).	
9.30 The Committee recognised that it is necessary for the KAFTZ Administration to take some positive steps to organise a promotion drive in the foreign countries. While the suggestion made by the zone Administration for opening regional offices of SEEPZ and KAFTZ in countries like West Germany, USA and Hongkong was considered to be rather premature by the Committee, it is necessary to intensify publicity work by organisation high powered delegations and regular advertisement campaigns in foreign countries. Appointment of a Pubiic Relations Officer with necessary supporting staff and the organisation of the publicity	The reeommendaeion which cevers four issues have been taken up. Visit of high-powered delegations and regular advertisements in foreign countries will be organised. Appointment of a PRO has not been found justified and Deputy Development Commissioner has been entrusted with the job of PRG in addition to his other duties. The issue regarding de-linking of the publicity and promotional work from the DAVP has been taken up with the Ministry of Information and Broadcasting. They have, however, not agreed so far.

Sl. No.	Recommendation	Action taken
	campaign by the KAFTZ Administration with the assistance of professional organisations and independent of the DAVP would go a long way in promoting KAFTZ, the Committee recommends that for this purpose budget provision for KAFTZ for promotional work abroad may be suitably enhanced (para 8.1).	Budget provisions, however, are made on yearly basis for promotional work.
9.31	The Committee noted that though initially an illustrative list of industries for Kandla Free Trade Zone had been prepared, no systematic study had been carried out to identify the industries which should be encouraged in the Kandla Free Trade Zone and even the KAFTZ Board accord approval to the proposals for setting up units in the Zone without having any guidelines regarding the industries to be encouraged there. The Committee, therefore, recommends that the Ministry of Commerce may entrust this study to a professional organisation like the Indian Institute of Foreign Trade or Tata Consultancy Services and prepare a list of industries which should be encouravgd in the Kandla Free Trade Zone. The Committee further recommends that the Ministry of Commerce may also consider formulating suitable guidelines for considering proposals for establishing units in the Kandla Free Trade Zone (para 8.2).	The Board of approvals take into consideration the viability of the unit and in consultation with the Department of Industries and other concerned agencies take a view before approval of any project. Amongst other things, the experience of similar type of industries in the Zone and criteria for value addition is taken into consideration.

	Recommeddation	Action taken
9.32	The representative of the Government of Gujarat suggested that a time bound programme may be formulated for implementing the recommendations of the Committee. This was agreed to.	The recommendation is being reviewed at regular intervals.
9.34	From January, 1975 the supplies of capital goods, raw materials, spares and components etc. from DTA have been treated as exs port and the suppliers are eligible for export benefit if the goods are sold to zone units by the registered manufacturer exporters at the international price. In view of the difficulties faced for determining the international price the Committee felt that the buyers and manufacturers can fix mutually agreed price and they can be compensated for quantity of goods so made available on the basis of that price. In DTA international price is not in vogue, this practice is followed. Further the Committee also felt that the purchaser may be made eligible to claim the export benefit from the Zone Administration as per the formula prescribed by the Government for such benefits *viz*, excise exemption etc. (para 3.8).	The mattes is under examination.
9.35	The Committee noted that considerable time is taken for fixing the percentage of scrap and sub-standard goods by CBEC. With a view to ensuring smooth functioning of the units in the Zone and to avoid unnecessary accumulation of scrap etc. the Committee recommended that the percentage	The matter has been taken up with the Department of Revenue (CBEC) who have not so far agreed to delegate the powers of fixing the percentage of the scrap/wastes to the Board of Approvals.

Sl. No.	Recommendation	Action taken
	of scrap, may also be fixed by the Board on the basis of Development Commissioner's report who would also consult the technical authority (3.10).	
9.36	The Committee noted that Four-Man Team which visited the Free Zones in the Far East during 9th to 29th January, 1977 in its report *inter-alia* made certain recommendations regarding further relaxation of customs procedures at the time of import and of goods from Santacruz Electronics Export Processing Zone. The CBEC have agreed to these recommendations except (b) and (f) of para 12.01 of the Four-Man Team's report. The Committee recommended that these relaxations may be extended to KAFTZ also. Further the two points (b) and (f) which have not been agreed to by the CBEC may be discussed by the Ministry of Commerce which CBEC of Gujarat may be associated in these discussions (4.12).	Matter is being pursued with CBEC.
9.37	The Committee noted that there is no dispensary at KAFTZ. The Committee recommends that the Gujarat Government should take steps to start a dispensary in the Free Trade Zone (4.13.6).	Present norms fixed by Ministry of Health do not jusify a dispensary. A doctor is, however, vistiting the Zone regularly. The matter is being further pursued with Government of Gujarat.
9.38	The Committee felt that there is no hotel accommodation at Gandhidham and also no recreation facilities available at	The situation has improved with regard to hotel accommodati...

	Recommendation	Action taken
	the Zone. It will be necessary to have a good guest house-cum-club where the intending entprepreneurs may be able to stay and Government officers as well as the Zone units executives may be able to meet socially. Ministry of Commerce may consider providing such facility on priority basis. Government of Gujarat may also consider expanding and upgrading the existing rest house facility at Gandhidham (4.13.7).	ructed by Government of Gujarat. KAFTZ Industries Association have been asked to formulate a proposal for giving them necessary support.
9.39	The Committee noted that the tempo of development of the Zone is picking up and it is necessary to have a regular research and statistics organisation so that the progress made by the Zone could be assessed and future projections made on scientific basis. The Committee, therefore, recommends that a research and statistics cell should be set up in the Zone Administration for proper appreciation of the progress of the Zone (8.3).	Matter is under consideration.

APPENDIX V

(*See* Para 2.6.2 of the Report)

[Note furnished by the Ministry of Commerce (Department of Commerce, *re.* Comparison of facilities and incentives offered by various *Export Processing Zones and Free Ports in the world*].

S.No.	Item	KEPZ (Taiwan)	MASAN (S. Korea)	Singapore	Hong Kong	MAYACUEZ (Puerto Rico)	MARIVELES (Philippnes)	Santacruz/KAFTZ (India)
1	2	3	4	5	6	7	8	9
1.	Import of raw materials compo-nents, consuma-bles, tooling, packaging, materials, C.G. and office equipment.	Duty-free; no restric-tion on compo-sition of import.	Duty-free; no restric-tion on com-position of import.	Duty-free; no restric-tion on compo-sition of import.	Duty-free; no restric-tion on composition of import.	Duty-free; no restriction on composition of tmport.	Duty-free; no restriction on composition of import.	Duty-free; no O.G.L.

2.	Foreign equity participation	No restriction; 100% owned subsidiries	No restriction; 100% owned subsidiries permitted	No restriction; 100% owned subsidiaies permitted but one local Director on Board.	No restriction; 100% owned subsidiaries permitted.	No restriction: 100% owned subsidiries permitted.	No restriction: 100% owned subsidiries permitted.	Tax holiday for 5 years.
3.	Corporate taxation	Tax holiday for 5 years thereafter	Tax holiday for 5 years subsequent 3 years, 50% reduction.	Tax holiday for 5 years thereafter 4% for 10 years.	15% maximum but none on profits generated abroad.	Tax holiday upto 15 years.	Information not available.	Tax concession applicable to the industries In India would apply no additional concessions for the units on the zone are given.
4.	Service charge	25% on exports 0.1% on imports.	2.5% on exports 0.1% on imports.	—	—	—	—	—

1	2	3	4	5	6	7	8	9
5.	Rents (i) Land	0.063/ Sq/M.Qr.	—	—	—	—	—	1.12/Sq.M/Yr. (50% for first theer years. 6.70/Sq. M/Yr.
	(ii) Factory	Offered on hire purchase to be paid in 10 years.	5.984/ sq. M/Yr.	25.20/ Sq. M/Yr.				
6.	Personal income-tax for residents.	Payable	Payable	Payable	Payable	Payable	Payable	Payable
7.	Personal income-tax for foreigners working in the zone.	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exemptions applicable outside the Zone are available.
8.	Plant Depreciation	—	—	Upto 100% in one year depending	20% with an addition of 20% in Ist	—	—	Same as for domestic tariff area (10% in general)

				on rate of obsoles-cence	year			
9.	Export credit	Same as for domestic tariff area	Same as for domestic tariff area	Liberal at 6% rate of interest for 3 to 10 years	—	—	—	Same as for domestic tariff area
10.	Repatri-atoin of capital, divi-dends, royalties, etc.	Free	Free	Free	Free	Free	Free	Full permission given under existing laws applicable all over the country.
11.	Cash subsidies on	Nil	Nil	Nil	Nil	Nil	Nil	Nil
12.	Exports Export obliga-tion	100% of output including scrap and seconds	100% of output	No ban on sale of portion of output to domestic market	No ban on sale of portion of output to domestic market	100% of output including scrap- and seconds	100% of output including scrap and seconds	100% of output

1	2	3	4	5	6	7	8	9
13.	Approval of enterprises and conditions thereof	Single point scrutiny by zonal authority and clearance within 7 days.	Single point scrutiny by zonal authority and quick clearance.	No permission needed if enterprise operates on its own foreign exchange otherwise single point scrutiny by the Economic Development Board ; clearance quickest of all zones	—	Single point scrutiny by Fomento San Juan	—	Single point scrutiny by EPZ Board.
14.	Import/ export procedures	Unified and administered by zonal authority on 2 forms	Instant/ import export endorsements without detailed	Import/ export freely allowed.	Import/export freely allowed	Unified and administered without restrictions except customs bonding.	—	To be administered within the zone itself.

APPENDIX VI

(*See* para 2·6·2 of the Report)

[Note from the petitioner regarding clearance of scrap and waste from KAFTZ.]

The Kandla Free Trade Zone is established for setting up of industries for 100% export. It is only a common knowledge that in a manufacturing unit the waste and scrap arise out of manufacturing activity.

2. According to the Customs Notification No. 77/80 dated the 17th April, 1980 the scrap and waste generated by the Zone units upto the percentage fixed by the Government of India can be permitted to be cleared to India on payment of duty as if it is imported in that form. At present there are about 100 units working in the Zone. These units are manufacturing various items of products. However, upto March, 1984, the percentage of waste was fixed in respect of only 11 items. It was noticed that these percentage were fixed by the Government taking into account the recommendations made by the Development Commissioner, KAFTZ, based on the actual generation of scrap and waste. However, in March, 1984, notification fixing the percentage of scrap and waste in respect of 4 more items of product was issued. In this case the percentage is fixed much below the percentage recommended by the Development Commissioner and agreed by the technical authorities. Such a fixation of the percentage of waste and scrap will not in any way help the units in the Zone as a substantial quantity of the scrap and waste will be remaining with the Zone units as the generation will be more than the percentage fixed by the Government.

3. The Tandon Committee in its recommendations mentioned that "Disposal of phased out and sub-standard goods, absolete equipment and rejected machine and scrap materials create problems with authorities, on which some more realistic rules should be made." Inspite of this recommendation and the decision of the KAFTZ Authority that the powers for fixation of the percentage should be vested with the Development Commissioner, KAFTZ, no action has been taken even though a period of more than two years has already elapsed. A list showing the name of the units, there item of manufacture and respect of which the percentage is yet to be fixed is enclosed for information.

4. The practice followed at present is that the Zone Administration conducts an experiment regarding the working of the Zone units to find out the actual waste and scrap generated after the units starts manufacturing. This experiment is normally conducted after starting the manufacturing operation for few months and some times when the unit approach the administration for permission to dispose of the scrap and waste generated. Then the same is forwarded to the concerned technical authorities for their comments. After getting the comments from the technical authorites the same is forwarded to the Ministry of Finance for issue of the notification fixing the percentage of scrap and waste. In this connection, it is pertient to point out that the cases referred to the Office of the Textile Commissioer, Bombay in 1979 are yet pending with them only. In fact an officer from the office of the T.C., Bombay, visited the Zone and stydied the working syste of certain units in March. 1984. Till date his comments are awaited.

5. In respect of the goods brought from DTA thout payment of duty the Development Commissioner, KAFTZ, has beenelegated with the powers for fixing the percentage of scrap and waste unc para (j) of the annexure to the Central Excise Notification No. 272/79 dd the 18th October, 1979. It is not known what is the problem in givin such powers to the Development-Commissioner, KAFTZ, in the Customs otification also. The Development Commissioner, is the best judge, who can ke on the spot study and varification regarding the genuine waste and scr generated by each unit. In this connection, this is to point out that th percentage of scrap and waste generated would very from unit to unit an item to item, depending upon the type of machinery, raw materials, compoits, etc. used.

6. This burning problem of tde Zone can be solved b delegating the powers to the Development Commissioner. A huge quantit of waste and scrap is lying with a number of Zone units occapying their ope ional space and blocking their capital. If this state of affairs is allowed t continued certain units may have to close their operation in the Zone for nt of space and for want of working capital as payment of a huge amoun interest to the financial institutions will be blocked on the waste and scra Moreover huge storage of wate scrap is also not advisable from the secu point of view as most of the units generate waste/scrap of fire hazardous i ure.

7. An immediate and positive action in this regard is esse

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